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ABSTRACT

This issue of the "Nevada Public Affairs Review" focused primarily on the politics of state taxing and spending in Nevada. The articles present several aspects of this topic, including a comparison of taxation in Nevada with that in other states, an analysis of the growth of the gaming industry in Nevada, an argument for removing Nevada's tax on food, a discussion of the funding of education in Nevada, an analysis of the budgetary implications of the changing patterns of enrollment at the University of Nevada at Reno, a look at the financial outcomes for public education of the 1979 session of the state legislature, a breakdown of the effects of the legislature's 1979 tax package, a presentation of the effects of Nevada's S.B. 204 on local governments, a Nevada county administrator's look at the budget process, and a table showing local government budgets for fiscal year 1979-80. Articles not specifically about Nevada include a defense of the property tax and an article on the impact of Proposition 13 in California. (JM)

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Nevada Public Affairs Review

Taxing & Spending In the Silver State

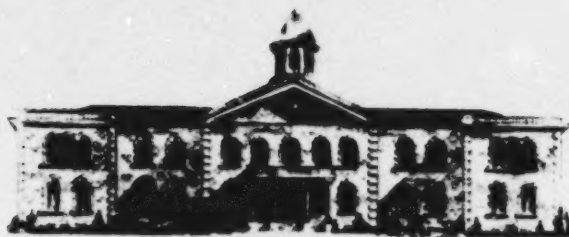
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Nevada Public Affairs Review

Contents

Introductory Essay: The Politics of Taxing and Spending <i>Richard Ganzel</i>	3
Taxation in Nevada: A Comparative Perspective <i>Andrew P. Grose</i>	5
The Growth of Gaming <i>Stuart E. Curtis</i>	10
✓ The Only Alternative to the Property Tax: A Better Property Tax <i>Walter Rybeck</i>	15
Remove the Tax on Food! <i>Mary Gojack</i>	19
The Funding of Public Education in Nevada <i>Peter Steinmann and Richard Ganzel</i>	22
Changing Patterns of Enrollment at UNR, with a discussion of budgetary implications <i>James T. Richardson</i>	28
Financial Outcomes for Public Education at the 1979 Legislature <i>Peter Steinmann</i>	31
The Impact of Proposition 13 on Public Education in California <i>James E. Gregg</i>	34
The New Tax Package <i>Glen Finnell</i>	38
The Effect of S.B. 204 on Local Governments <i>Marvin Leavitt</i>	41
A Local Administrator Looks at the Budget Process <i>John MacIntyre</i>	44
Local Government Budgets for Fiscal Year 1979-80	46

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The University of Nevada System takes pride in its efforts to provide Nevadans with the public services that can come from their institutions of higher education. As part of this effort, the personnel of the Bureau of Governmental Research at the University of Nevada, Reno, are pleased and proud to announce the second issue of the *Nevada Public Affairs Review*.

The purpose of the *Review* is to present information on topics of public concern and analysis of those topics in a way that will promote increased understanding and informed debate among the citizens of Nevada. In that spirit, we most certainly invite the comments and suggestions of any of our readers who would like to contribute to our presentation and analysis of public affairs.

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Nevada Public Affairs Review

1979, Number 2

Taxation

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Introductory Essay: The Politics of Taxing and Spending

by Richard Ganzel

This is an unusual issue of the *Review* in that it is in some respects a second edition. A preview issue of shortened versions of those contributions most useful to the participants in the 1979 Nevada legislative process was issued earlier. This issue includes the full versions of those contributions along with newly commissioned efforts to describe or assess the initial impact of legislative decisions. In sum, it is hoped that the publication will serve as a useful introduction to the politics of taxing and spending both for students and for those citizens who wish to be informed participants in the democratic process next time.

Although most of this issue is devoted to Nevada, the Nevada experience is by no means unique. Nevada's tax policies need to be understood in both comparative and historical perspective. So do its approaches to funding vital programs. Peter Steinmann and Richard Ganzel provide those perspectives for public education. Walter Rybeck provides a useful overview of controversy and evidence on property taxation, one of the targets of tax reform movements. Finally, Professor James Gregg analyzes the experience of education in California in the wake of Proposition 13. Since the Nevada electorate may pass the parallel measure, Question 6, in Fall 1980, Gregg's analysis may serve as a preview and warning to the Nevada electorate. This essay provides further perspective, as well as reflects on the essays included in this volume.

Those seeking to understand recent Nevada trends in taxing and spending need to recognize that many attitudes underlying the so-called taxpayers revolt reflect broad national and international forces. The ravages of inflation, the inconveniences of energy shortages and market dislocations, the worrisome uncertainties of policy drift and political disagreement plague Americans everywhere. Recent energy shortages have hit Nevada's tourism-based economy with unusual severity, yet Nevada's taxpayers revolt preceded that crunch. In contrast, those who would link the taxpayer's revolt to intolerably high burdens of taxation must explain why Nevada's taxes — much less burdensome than those borne by citizens in other states, and maintained at 1970 levels through two terms of Governor O'Callaghan's tenure — have suddenly become so onerous.

The first problem in supplying answers to that question is that ballot measures are highly selective. For example, in the space of less than a year northern Nevada residents have voted to cut business inventory taxes, the tax on sales of food products, and property taxes. On the other

hand, voters in different counties have approved school bonds and park acquisition bonds. They have had no opportunity to register their opinions as to whether taxes on gaming, entertainment, liquor sales, or gasoline and diesel fuel should be lowered or increased. Nor have they had a vote on such actual or potential sources of public revenue as fees charged to the construction industry. In short, voters have not had an opportunity at the ballot box to register their opinions on the mix of taxation (that is, the distribution of the tax burden) that they prefer. Similarly, though park and school measures sometimes reach the ballot box, voters aren't asked to choose among spending alternatives.

Voting on ballot measures may be direct democracy in action, but only in a selective way that is plagued by short-term considerations and emotional campaigns. Its results must be weighed against more sustained support for interest groups, political parties, and representatives regularly reelected by the same voters. Representative democracy may not always live up to the ideal of reasoned debate and informed decision-making, but it compares favorably with a long-term assessment of effort to legislate at the ballot box.

Would-be interpreters of voting on ballot measures also must recognize that the portion of eligible voters who actually vote has been declining steadily. Only a minority — sometimes a small minority — dictates policy in such circumstances. An associated and widely recognized fact is that high voter turnout typically have favored activist, expenditure-oriented candidates and issues whereas low turnouts have favored frugal, less innovative results. Consequently, it is difficult to resist the conclusion that much of the taxpayers revolt is little more than a reflection of the fact that those who resist more spending voted whereas those who favor expanded spending stayed home.

How does such a (partial) conclusion square with approval of bonds for schools and parks? Rather easily. Those promoting purchase of Rancho San Rafael as a "regional" park for northern Nevada were generally well-educated, sophisticated, and affluent. They are the modern successors of the wealthy and future-oriented benefactors of earlier eras who bequeathed parks from their private land holdings to countless fortunate and grateful communities. When they believe an investment in the future for their children and succeeding generations is merited, they will promote it in good times and bad. But during the bad times of inflation, war, and recession, only measures strongly supported by well-organized and wide-

ly respected communities will survive a vote in which those who might favor increased spending fail to participate.

If one returns to the factors shared by voters nationwide, a certain rationality emerges. Property values — and hence property taxes — skyrocket during inflationary eras. Those seeking to protect the values of their “estate” scramble to “get into” property. Assessors note the boom in market values, and tax bills soar. Californians, with annual reassessments and reassessments upon sale of property, faced real threats to long-term investments and retirement plans. When added to the lists of those who regularly oppose tax or spending increases, these new recruits to the banner of reform ensured victory.

In some states, these new recruits also favor spending cuts. Still others have supported cuts because they believed state government surpluses were adequate to fund existing and needed programs. In Nevada, those wishing to “spend the surplus” retained wide support until future tax revenues appeared threatened by recession. A few voters favor tax cuts because they believe that reduced taxes may generate economic boom and therefore expand the tax base, yielding more total revenues for government. Finally, some may simply have favored a shift from property taxes to other types of taxes or fees.

For all these reasons, those claiming an anti-government, anti-spending trend in opinion appear excessive (and perhaps opportunistic) in their claims. A resurgence of popular leadership, international stability, and waning inflation may well bring the silent poor back to the ballot box in support of new programs and some new directions.

As Finnell shows, Nevada legislators have instead assumed a pervasive voter rebellion. As they sought to

eliminate some of the worst inequities on Question 6, they insisted upon major tax cuts and upon spending limitations that apply to local governments and school districts. If instead my interpretation of an affluent, conservative, and temporary minority endorsing tax cuts is approximately accurate, the legislative result is ironic. Such a constituency traditionally has provided most of the support for local government and schools — the only entities subjected to rigid spending limitations.

As Steinmann, MacIntyre, and especially Leavitt show, local entities will be forced to retrench, fund new programs at the expense of old ones, or rely increasingly upon “user” fees such as inspection charges, permit fees, higher tuition, and charges for recreational programs to retain revenue levels. Unless governments develop such devices as scholarships and apply them outside academic settings, such charges will tend to confine many services to the affluent and will tend to favor established residents at the expense of newcomers to a community.

Such changes may be desirable in some instances and undesirable in others. Legislators notably reduced tax support for athletic programs associated with higher education. Students of music may feel that an unjust situation in which they have long paid steep fees for lessons has finally been rectified. But what of opportunities?

In any case, clearly it goes far beyond reason to suggest that voters weighed all these alternatives and implications and then cast their ballots for reduction and retrenchment. More likely, voters in Nevada and other states sought to protect themselves against the worst effects of inflation, and little more. In contrast, those who have promoted initiatives to force the federal government to balance its budget are taking aim at one of the crucial causes of inflation. Their cause, however, is beyond the scope of this issue.

Richard Ganzel is an Associate Professor of Political Science at the University of Nevada, Reno, and a general editor of *Nevada Public Affairs Review*.

Taxation in Nevada: A Comparative Perspective

by Andrew P. Grose

Introduction

This article focuses on taxation policies. In practice, of course, tax policy is closely associated with several other government policy areas. Clearly, tax policy and spending policy are inextricably bound together in such a way that it is seldom possible to say whether tax policy is the dependent or the independent variable in the taxing-spending relationship.

The taxing and spending facets also are reflected in competing models for policy analysis of state spending. An extensive body of literature has developed in political science in the past 15 years proposing and attacking several models of spending analysis. Before looking at Nevada's revenue structure and comparing it with that of other states, it may be instructive to consider briefly some of this research. It will be seen that each spending model, implicitly, is a taxing model as well.

Two major competing models have been advanced to explain state spending patterns. One has been characterized as the "needs" model and the other as the "resource" model. The needs model, very simply, states that expenditures are triggered by needs. High crime rates, for instance, should trigger higher-than-average public safety expenditures. The needs model tends to minimize consideration of the tax base of a state. In contrast, the resource model suggests that a state will spend what it can afford to spend. In other words, a poor state will spend less in virtually every issue area than will a rich state, regardless of needs.

Related to the debate over "needs" versus "resources" is a debate over whether a state's expenditures are determined more by political variables or socioeconomic variables. A few citations illustrate the confusing and conflicting results of research. In 1949, V.O. Key in *Southern Politics*¹ argued that political factors such as interparty competition and malapportionment of legislatures determined expenditure decisions. Dawson and Robinson² in 1963 concluded that economic variables, not political variables, determined state expenditures, at least in the area of welfare. Thomas R. Dye³ in 1966 tended to confirm Dawson and Robinson by showing that state spending on education was far more strongly related to community income than to any political variable. In contrast, Ira Sharkansky,⁴ found that the greatest expenditures for public safety were in those states having the highest crime rates. Similarly, Sharkansky and Richard I. Hofferbert,⁵ using factor analysis rather than the partial correlations relied upon by Dye, found that education and welfare expenditures were at least as much explained by political variables as by socioeconomic ones. Robert H. Salis-

bury⁶ concluded that the richer the state, the more it spends on schools, after controlling for the effects of urbanization and party competition.

Given the diversity of methods utilized and the variety of issues examined, these models probably can't be reconciled. At the aggregate level, we can conclude that for most states, socioeconomic conditions, especially income and wealth, will be important determinants of overall spending levels. At the same time, it is clear that some states will be exceptions and that in some states at particular times or on particular issues political factors will be more important in determining spending patterns. The research also gives us a great deal of guidance in understanding when one factor rather than another will be most important. Finally, it underscores the link between spending and the tax sources utilized to pay for such programs.

Taxation in Nevada

Government programs may be financed through taxes or through service fees. A classic definition of a tax is:

a compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all without reference (or with little reference) to special benefits conferred.⁷

Taxes are not, and are not intended to be, related to the services an individual receives. Some people pay high taxes and receive few services. Others pay little in taxes but receive great amounts in services and even direct payments. Adam Smith, in the seminal work for conservative economics, *The Wealth of Nations*, published in 1776, wrote as his first principle of taxation:

The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to the revenue which they respectively enjoy under the protection of the state. . . .⁸

Confusion arises between taxes and service fees. Some fees are collected for specific services such as connecting to sewer lines, installing curb and gutter or paving streets. Frequently those fees may appear as separate items on a tax bill and may even be the cause of liens on property leading many people to assume that they are taxes and to associate specific services with taxes. In fact, many more services could be paid for by service fees that now are paid for by taxes. At the state level, the decision on whether a service should be fee-supported or tax-supported has a major impact on the overall tax structure.

The following analysis of the Nevada tax structure is not intended to be a comprehensive coverage of all states

revenues. Rather, it is an attempt to analyze the major state taxes in terms of their contributions to the general fund, their performance over time and their elasticity characteristics. Therefore, no attempt will be made to analyze components of the highway fund other than the gas tax, such as the privilege tax, license fees, special fuel taxes or motor carrier fees. Nor are lesser general fund revenues considered. Finally, no analysis of increasing federal payments to the state is made.⁹

Overall, as shown in Table 1, Nevada's general fund tax revenues have grown rapidly. Revenues actually exceeded projections, but, as the following chart shows, there was little to indicate the extent to which this would be so. The average annual increase over the past decade up to 1977-78 was 12.9 percent. For 1977-78, it was 21.2 percent which was the largest increase of the decade.

Table 1 ¹⁰		
Year	General Fund Revenues	Percent Increase
1968-69	77,417,562	13.7
1969-70	90,090,611	16.4
1970-71	96,671,323	7.3
1971-72	108,875,316	12.6
1972-73	123,448,177	13.4
1973-74	148,524,691	20.3
1974-75	162,701,559	9.5
1975-76	178,744,076	9.9
1976-77	202,783,910	13.4
1977-78	245,738,044	21.2

Overall 10-year increase in general fund revenues = 217 percent

Based on previous research on state government expenditures, one would expect state revenues to rise at least enough to keep pace with inflation and with population growth. One might also expect increases to reflect improvements in per capita real income. The Consumer Price Index in 1968 was 103.7. In June 1978 it was 193.4, an increase of 86.5 percent.¹¹ During the same period, Nevada's population grew from approximately 460,000 to approximately 680,000, a 48 percent increase.¹² If one adjusts 1968 revenues to reflect only these two factors, he would anticipate 1977-78 fiscal revenues of \$213,687,260. Official revenue projections were only 1.35 percent larger, \$216,583,690.

This analysis of tax growth and the conclusion that tax revenues have, until the last fiscal year, just barely exceeded inflation and population growth is confirmed by a Tax Foundation study. The September 1978 issue of *Monthly Tax Features* shows that in the decade 1966-1976 the combined state and local expenditures increase in Nevada was less than in any other state in the nation.¹³ The Nevada increase was 115 percent on a per capita basis. In that same period, the per capita expenditures increase in Nevada per \$1,000 of personal income was 6 percent. The average national increase was 30.1 percent. Only four states had increases smaller than 6 percent.

One major Nevada tax source which does not provide general fund revenues should also be examined. That is the 6-cent per gallon gasoline tax. Of those 6 cents, 4½ cents go to the state highway fund and the other 1½ cents go to the counties for streets and highways. In 1968-69, that tax produced \$13,529,868.¹⁴ In 1977-78 it produced approximately \$27,225,617.¹⁵ This is a 10-year increase of only 101 percent, which compares unfavorably with the general fund revenue increase of 217 percent. The reason is that the tax is levied on gallons sold, not price. Conse-

quently, gasoline tax revenues grow only if consumption grows. Thus, this tax is not very elastic. The highway fund has not kept up with the costs of building and maintaining highways because the latter reflect inflation. Nor can it be expected to keep pace in the future.

Five taxes account for 93.2 percent of Nevada's general fund revenues. The amount of tax revenues from each, collected each year over the past decade, is shown in Tables 2 through 7.

Table 2¹⁶
Taxes on Gaming — Gross Revenues, Licenses
and Casino Entertainment

Year	Amount	Percent Increase
1968-69	\$ 33,418,390	14.7
1969-70	39,473,231	18.1
1970-71	41,922,114	6.2
1971-72	46,783,810	11.6
1972-73	53,287,611	13.9
1973-74	64,678,991	21.4
1974-75	70,680,881	9.3
1975-76	80,278,392	13.6
1976-77	90,031,971	10.0
1977-78	107,342,672	19.2

Overall 10-year increase in gaming revenues = 221 percent.

Table 3¹⁶
Sales and Use Tax, Two Cents

Year	Amount	Percent Increase
1968-69	\$ 28,483,180	13.4
1969-70	33,570,040	17.9
1970-71	35,458,736	5.6
1971-72	40,807,750	15.1
1972-73	46,852,031	14.8
1973-74	54,362,615	16.0
1974-75	58,405,275	7.4
1975-76	65,405,275	12.4
1976-77	77,020,013	17.0
1977-78	95,197,898	23.6

Overall 10-year increase in sales and use tax revenues = 234 percent

Table 4¹⁶
State Property Tax, \$.25 Per \$100

Year	Amount	Percent Increase
1968-69	\$ 3,909,818	4.5
1969-70	4,336,803	10.9
1970-71	4,790,460	10.5
1971-72	5,238,960	9.4
1972-73	6,036,839	15.2
1973-74	6,662,700	10.4
1974-75	7,281,586	9.3
1975-76	8,359,233	14.8
1976-77	9,137,289	9.3
1977-78	10,270,046	12.4

Overall 10-year increase in state property tax revenues = 162 percent

Table 5¹⁶
State Liquor Tax

Year	Amount	Percent Increase
1968-69	\$ 4,068,782	9.9
1969-70	4,511,618	10.9
1970-71	4,734,740	4.9
1971-72	5,420,053	14.5
1972-73	6,100,819	12.5
1973-74	6,620,938	8.5
1974-75	7,058,106	6.6
1975-76	7,716,735	9.3
1976-77	8,363,759	8.4
1977-78	8,862,912	6.0

Overall 10-year increase in state liquor tax revenues = 118 percent

Table 6¹⁵
State Insurance Premium Tax

Year	Amount	Percent Increase
1968-69	\$ 2,653,153	13.0
1969-70	2,942,456	10.9
1970-71	3,512,151	19.4
1971-72	4,003,405	14.0
1972-73	4,493,875	12.2
1973-74	5,017,291	11.7
1974-75	5,465,334	8.9
1975-76	6,001,728	9.8
1976-77	7,270,053	21.1
1977-78	9,179,872	26.3

Overall 10-year increase in state insurance premium tax = 246 percent

Table 7¹⁶
Summary Table
Year-to-Year Increases (Percent)
Tax

Year	Gaming	Sales	Property	Liquor	Insurance
1968-69	14.7	13.4	4.5	9.9	13.0
1969-70	18.1	17.9	10.9	10.9	10.9
1970-71	6.2	5.6	10.5	4.9	19.4
1971-72	11.6	15.1	9.4	14.5	14.0
1972-73	13.9	14.8	15.2	12.5	12.2
1973-74	21.4	16.0	10.4	8.5	11.7
1974-75	9.3	7.4	9.3	6.6	8.9
1975-76	13.6	12.7	14.8	9.3	9.8
1976-77	10.0	17.0	9.3	8.4	21.1
1977-78	19.2	23.6	12.4	6.0	26.3
10-Year Increase	221	234	162	118	246

Based only upon population growth and inflation, a tax growth of 176 percent should be expected. The following table shows the 10-year growth of each tax compared to the expected growth.

Table 8¹⁶

Tax	1968-78 Increase	Expected Increase	Difference
Gaming	221	176	+45
Sales	234	176	+58
Property	162	176	-14
Liquor	118	176	-58
Insurance	246	176	+70

The proportion of general fund revenue from each major tax over the 10-year period is noted in Table 9.

Table 9¹⁶
Taxes

Year	Gaming	Sales	Property	Liquor	Insurance	Other
1968-69	43.2	36.8	5.1	5.3	3.4	6.3
1969-70	43.8	37.3	4.8	5.0	3.3	5.8
1970-71	43.3	36.6	5.0	4.9	3.6	6.5
1971-72	42.9	37.5	4.8	5.0	3.7	6.1
1972-73	43.2	38.0	4.9	4.9	3.6	5.4
1973-74	43.5	36.6	4.5	4.5	3.4	7.5
1974-75	43.4	35.9	4.5	4.3	3.4	8.5
1975-76	44.9	36.8	4.6	4.3	3.4	6.0
1976-77	44.4	38.0	4.5	4.1	3.6	5.4
1977-78	45.7	38.7	4.2	3.6	3.7	6.1

The most striking conclusion to be drawn from Tables 7, 8 and 9 is that Nevada's revenue structure is based primarily on two taxes which show admirable stability and solid growth. Those are the gaming and sales taxes. The property tax revenues have lagged somewhat. This is a very interesting finding considering the popular impression that property tax increases have outstripped normal inflation. It can be seen from Table 8, however, that the property tax revenues statewide have not kept pace with the combination of population growth (reflected in additional taxable property) and inflation.

Property tax revenues are much more important for local governments than they are for the state government. Moreover, the state permits local governments to impose levies on aspects of gaming that also are relatively inelastic. These facts provide much of the explanation of why state government in Nevada has a surplus but many local governments are complaining of revenue shortfalls. The only elastic local taxes are the ½ cent sales tax (the City-County Relief Tax) and the 1 percent Local School Support Tax. Increases in the distributed taxes on liquor and cigarettes are dependent upon greater consumption, not higher prices. The Local School Support Tax provides tax elasticity to school districts but cities and counties do not have comparable elasticity. The state, by contrast, has very elastic gaming levies, plus the sales tax, insurance premium tax and real estate transfer tax, all of which respond directly to inflation.

Nevada and Other States

Nevada boasts of a favorable tax climate; there are several significant taxes that Nevada doesn't levy at all. 32.2 percent of total state revenues nationally come from corporate and personal income taxes. Only Nevada, Texas, Washington, and Wyoming levy neither of these income taxes. Nevada has no admission tax, no franchise tax and no form of estate or inheritance tax. A majority of states has all of these. Nevada does not tax intangibles such as stocks and bonds. Fourteen states do. Nevada has no special chain store tax. Eleven states do. Nevada has no capital stock transfer tax. Three states do. Nevada does tax gaming, of course. Still, in spite of the significance of gaming revenues in Nevada, four states — California, Florida, Illinois and New York — receive more in state gambling revenues.

Nevada's state sales tax is technically only 2 percent. The state collects an additional 1 percent on behalf of local school districts and, where adopted by local governments, a half percent City-County Relief Tax on behalf of local governments. Of the 45 states levying a sales tax, no state levies less than 3 percent. Only 13 levy a 3 percent tax. The rest are higher, with Connecticut tops at 7 percent.

All 50 states levy a motor fuel tax. Nevada's 6 cents per gallon rate is next to the lowest in the nation. Only Texas is lower at 5 cents per gallon. Washington State has the highest tax of 11 cents per gallon. In addition to gallonage taxes, some states also levy a sales tax on gasoline purchases. It may be helpful to conclude with a tabular comparison of Nevada's state tax rates and state taxes with those of its neighboring states. Except for California, none of these neighbors is regarded as a high tax state.

Table 10 shows that of 13 major tax sources used by Nevada's five bordering states, Nevada uses only seven. Nevada levies as low or a lower rate than the other states on four of those seven. Utah, Oregon and Idaho have lower tax rates on cigarettes. Nevada's real estate transfer tax is high compared to the other states. However, in most states this is a local tax, and local rates are considerably higher than the Nevada rate. Arizona levies a lower insurance premium tax on domestic companies. Oregon has no sales tax, but does have an income tax with rates among the highest in the West.

Table 10¹⁷

Tax	Nevada	California	Oregon	Idaho	Utah	Arizona
General Sales (Incl. LSST)	3%	4.75%		3%	4%	4%
Personal Income	—	1-11%	4-10%	2-7.5%	2.25-7.75%	2-8%
Corporate Income	—	9%	6.5%	6.5%	6%	2.5-10.5%
Motor Fuel	6¢	7¢	7¢	9½¢	9¢	8¢
Cigarettes* (per pack)	10¢	10¢	9¢	9.1¢	8¢	13¢
Alcohol (distilled)	\$1.90	\$2 or \$4 gal.	**	12¢**	8¢**	\$2.50 gal.
Severance	5 mills barrel of oil 5 mills 50,000 cubic ft. of gas	Varies yr. to yr.	1¢ bushel wheat 11¼¢ per 1,000 board feet.	2% minimum 5 mills barrel oil; 5 mills 50,000 cubic ft. of gas; 12½% forest	1% ore 2% oil & gas	—
Real Estate Transfer	.55 \$500	Local	Local	Local	Local	\$2 per deed or contract up to 4%
Occupation Gross Income	—	—	—	—	—	2%
Rental Occupancy Insurance	2%	2.35% general 3% surplus lines	2¼%	3%	2¼% general 3% surplus lines	1% local 2% foreign
Bank & Corporation Franchise	—	9% net income	7½% net income	6½% net income	4% net income	—
Inheritance Tax	—	3-24%	12%**	4-30%	5-10%	8-16%

*All proceeds in Nevada go to local governments.

**State stores so percentage tax is levied in addition to markup.

Conclusion

By almost any measure, state taxes in Nevada are low compared to those in other states. If the comparisons in Table 10 had been with Midwest or Northeast states, the contrast would have been even stronger. Since there are no free lunches and Nevada must pay for public services, what is the explanation for Nevada's low tax rates?

One reason may be that Nevada funds fewer public services or funds them at lower levels. The Tax Foundation research cited earlier indicates that expenditures in Nevada have not kept pace with those in other states over the past decade. There are two additional reasons and they are related. Nevada levies gaming taxes not found elsewhere. Throughout the decade reviewed, over 40 percent of general fund revenues have come from the combination of the gross revenue license fees and the casino entertainment tax. In addition, revenues are increased as a result of payments by tourists. The common denominator, then, is tourism. What makes tourism so significant to Nevada's tax structure is the usually high tourist-to-resident ratio in Nevada on any given day. Florida had an estimated 27 million tourists in 1977 but its population was over 8 million. That is about 3.3 tourists per resident.

Nevada in 1977 had 12 million tourists with a population that year of 650,000. That is about 18.5 tourists per resident.¹⁸ If the average stay for a tourist is only 3 days, that means that over 100,000 tourists were in the state on any day. This number probably is very conservative since it is estimated that that many are in Clark County alone on a typical weekend.

Conservatively, then, 15 percent of the people in the state at any one time are tourists. As much as 15 percent of the sales tax may be paid by tourists. The majority of the gaming tax is paid by tourists.

Because these observations are speculative in their specifics, no attempt has been made here to recompute Nevada's per capita tax collections or per capita expenditures. It is apparent, however, that because of the state's unusual reliance on tourism, the usual methods of figuring per capita tax burdens do not apply to Nevada. Indeed, a final observation might be that state government and the university system should cooperate to develop a tax model for Nevada that takes into account the uniqueness of its tax structure and to determine the true incidence of Nevada's taxes.

FOOTNOTES

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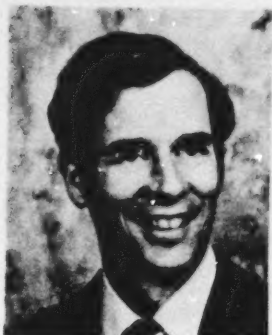
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The Growth of Gaming

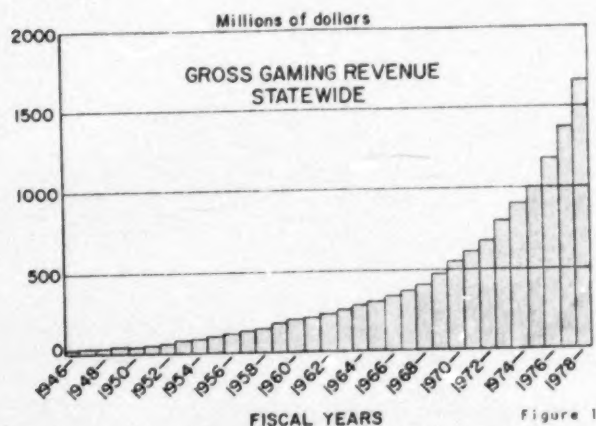
by Stuart E. Curtis

Growth is defined by Webster as a progressive development, or less optimistically, a morbid formation, such as a tumor. Both definitions, depending on a person's point of view, can be used to describe the growth of business today. The gaming industry (gambling, to the uninitiated) is surely no exception. Since 1931, Nevada's gaming industry has experienced substantial growth.

In traditional lines of industry, growth commonly is measured by the increase, or decrease, in gross sales. Gross gaming revenue¹ is undoubtedly the best yardstick with which to measure the growth of our gaming industry. It can be considered a casino's equivalent of a merchandising firm's gross sales.

In 1945, legislation was enacted to create a state-levied tax based on casino's gross gaming revenue. (Up to this time, control and taxation of gaming rested with each of the seventeen counties.) In that first year, ending June 30, 1946, the industry reported \$24.5 million of gross gaming revenue. In the thirty-three years since then, gaming revenue has increased more than sixty-nine fold, to nearly \$1.7 billion for fiscal 1978. This is an average annual compounded growth rate² of about 14 percent.

With the sole exception of fiscal 1950, gaming revenue has increased steadily (in fiscal 1950, the industry reported 3.6 percent less gaming revenue than in fiscal 1949.) All other years have increased — some substantially. For example, fiscal 1947 increased 32.2 percent over 1946; fiscal 1953 increased 35.8 percent over 1952; and currently, fiscal 1978 increased 21 percent over fiscal 1977.



Although growth in the years immediately following the institution of the tax on gross gaming revenue (commonly called the "percentage tax") was large, it tended to

be erratic. Not until the mid-1950's did the industry settle into a fairly regular growth pattern. Calculated as a ten-year moving average the rate of growth has been accelerating steadily, increasing from an annual average of 10.8 percent in 1969 to 15.2 percent in 1978.

The statewide average is, of course, affected by the rates of the faster growing areas of the state, as well as the rates of the slower growing areas. Even the three counties (Clark, Douglas, and Washoe) which together produced 96 percent of the gaming revenue³ of the state in fiscal 1978 have each grown at different rates.

Clark County Growth

Of the three counties, Clark has had the greatest rate of growth over the past ten years, averaging 16.9 percent annually. There are at least three reasons for this. First, Las Vegas is reasonably near a large, rapidly expanding Southern California population; second, the county has developed a major airport, McCarran International, which during the calendar year 1978 handled 9.1 million passengers.⁴ (Not all these passengers are gamblers, but the total provides a basis for comparison with the Reno International Airport which had nearly 2.1 million passengers in 1978,⁵ and the South Tahoe Airport with 589,000⁶ passengers.)

GROSS GAMING REVENUE

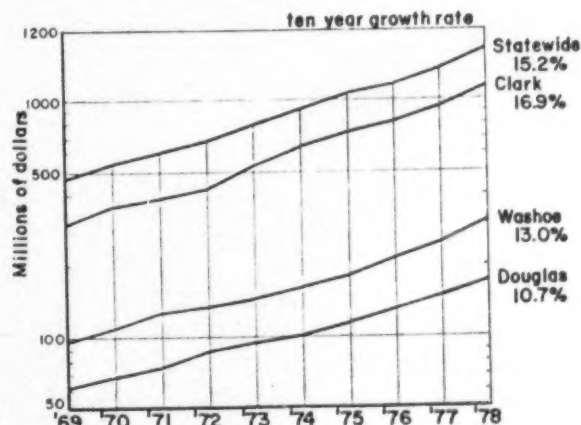


Figure 2

The third reason for Clark County's greater growth is the climate. The influence of the weather on gaming in Nevada is common knowledge. Clark's mild winters enable out-of-state visitors to take advantage of the New Year and Washington's Birthday holidays, which in

northern Nevada are often hampered by bad weather. The seasonal variation here is relatively smooth with the winter quarter producing 24.4 percent of the year's revenue; the spring quarter, 24.5 percent; the summer quarter, 25.9 percent; and the fall quarter, 25.2 percent.

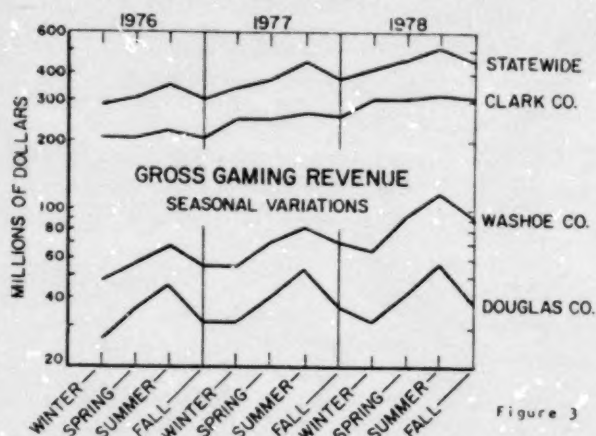


Figure 3

Washoe County Growth

Washoe County's gaming growth rate has been accelerating rapidly in the past few years. While the ten-year average (Figure 2) was only 13 percent, by fiscal 1978, the average for the last five years alone was 16.3 percent. The annual increases show this acceleration:

Fiscal Year	Increase Over Previous Year
1972-73	8.3%
1973-74	11.2%
1974-75	10.3%
1975-76	17.5%
1976-77	18.9%
1977-78	23.6%

The first three quarters of fiscal 1979 shows an increase of 37 percent over the same period of 1978. This is the period of time which saw the addition of the MGM, Circus-Circus, and the Sahara-Reno in Washoe County. The results of the fourth quarter (April, May, and June) are not available at the time of this writing but it is believed that fiscal 1979 will be another record year in spite of gasoline shortages during this final quarter. The full effect of the fuel shortage will not be seen until the fiscal 1980 results are in.

Figure 3 shows the effect of weather on Washoe's gaming business. Here, as in all the counties, the greatest amount of business is in the summer quarter, while the winter quarter is the slowest. As can be seen, the spread between the summer high and the winter low is much greater than Clark's. 1978's winter quarter produced 17.4 percent of the year's total, while the spring quarter had 25.5 percent; the summer quarter, 32.1 percent and the fall quarter, 25.0 percent.

Douglas County Growth

Over the past ten years Douglas County has experienced the lowest average rate of growth of gaming (Figure 2) of the three major counties, and the first three quarters of fiscal 1979 increased only 4.9 percent over the same quarters a year ago. Weather, of course, is a prime

factor in Douglas County as winter storms can close, or severely limit traffic on U.S. 59, the main access to the area. The airport also, in addition to being small, is subject to the whims of weather. As a result, Douglas County's average rate of gaming growth fluctuates more widely than the other areas. For example: their ten-year average has varied from a high of 14 percent in 1968, to a low of 9 percent in 1976, with ups and downs along the way. Individual years vary even more widely, with fiscal 1969 increasing less than 3 percent over 1968, and fiscal 1972 increasing 15 percent over 1971. Douglas County's seasonal variation (Figure 3) is quite similar to Washoe County's pattern, with the winter quarter producing 19.7 percent; the spring quarter, 24.5 percent; summer, 33.3 percent and the fall quarter, 22.5 percent.

One new casino, the Park Tahoe, opened in late July, 1978 in spite of opposition of conservationists. It is likely, though, that the South Lake Tahoe area of Douglas County is approaching its saturation point in gaming, and it is doubtful if any more casinos can be built there in the foreseeable future.

Real vs. Inflationary Growth

One might wonder how much of this growth is due to inflation. It would be difficult to answer this question precisely, but as in other segments of our economy inflation does affect gaming revenues. It can be argued that a slot machine will accept nickels, dimes, quarters, or dollars, and that the machines have a specified capacity regardless of what the coins are worth in terms of some arbitrary inflation factor. A dollar bet is still counted as a dollar whether it is valued on the 1939 dollar, the 1967 dollar, or the current dollar. It seems likely that while a gambler may not watch the monthly Consumer Price Index to see if he should wager more this month than last month, he may now play dollars in a slot machine when five years ago he would have played nickels or quarters. A craps or twenty-one player may well buy one hundred dollars or more in chips, when previously he might have bought twenty dollars worth. As noted in the Quarterly Report of the State Gaming Control Board for the first quarter of 1978, when gross slot machine revenue increased 29.4 percent over the same quarter a year ago: "The \$1 slot machines accounted for 94 percent of the total increase in slot machine revenue and 47 percent of the total increase in revenue from all sources (games, slot machines, etc.)." It seems reasonable to assume that, combined with improved marketing methods by casino management, inflation is instrumental in this increased action.

After the revenue has been earned by the casino, there is no question that inflation is a major factor, since casinos must pay inflated operating costs just as any business does. For calendar 1978 more than 46 percent of gross gaming revenue may be the result of inflation, based on the 1967 dollar.

Gaming as an Investment

Gaming revenue is not the only thing in gaming that has grown; truly astonishing growth has been experienced by the publicly-owned casinos in the value of their shares of stock. The Economic Research section of the State Gaming Control Board has, for the purpose of studying this growth, created a Gaming Industry Index

and a Leisure Industry Index. The Gaming Index is made up of eight publicly-traded corporations which are involved in gaming in Nevada.⁷ Seven of these companies operate thirteen casinos; the eighth is a manufacturer, distributor and operator of slot machines. The Leisure Industry consists of twenty publicly-owned corporations⁸ whose products or services compete for the public's leisure-time dollar.

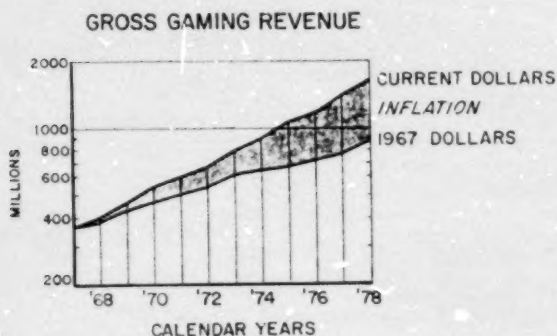


Figure 4

Stock quotations for each of these groups are averaged monthly and plotted against the Dow Jones Industrial Average, using December, 1974 as a starting point. This point in time was chosen because it was the lowest month in the last major national recession. A mathematical

factor was applied to the Gaming Industry average and to the Leisure Industry average so as to equate their base with the Dow Jones Average. Over forty-five months, through September 1978, the Dow Jones Index increased 47.5 percent from the December 1974 low. The Leisure Industry Index increased 173.2 percent, and the Gaming Industry Index increased 862.5 percent. In other words, if an investor had purchased \$1,000 worth of Gaming Industry group stock at the December, 1974 prices and held it, the investment would have had a market value of over \$8,600 at the September, 1978 prices.

However, by November, 1978, all the averages had dropped — substantially. The Dow Jones Index was 8.2 percent lower than its September high; the Leisure Industry Index was 22.6 percent less, and the Gaming Industry Index was 37.7 percent less. Even with this sizeable decrease, the Gaming Index was still nearly 500 percent greater than the December, 1974 low (the hypothetical \$1,000 investment would still be worth just under \$5,000). The Leisure Industry still showed an increase of 112 percent for the period, and Dow Jones was about 35 percent above the December, 1974 low.

By May, 1979, the Gaming Index had recovered its losses and surpassed the September, 1978 high, while the Leisure Industry and the Dow Jones made only slight gains.

While the vagaries of stock price fluctuations may reflect growth — extreme growth in the case of gaming stocks — these ups and downs may have little in common

GAMING INDUSTRY AVERAGE STOCK QUOTATIONS versus the DOW-JONES INDUSTRIALS AVERAGE & A LEISURE INDUSTRY GROUP AVERAGE

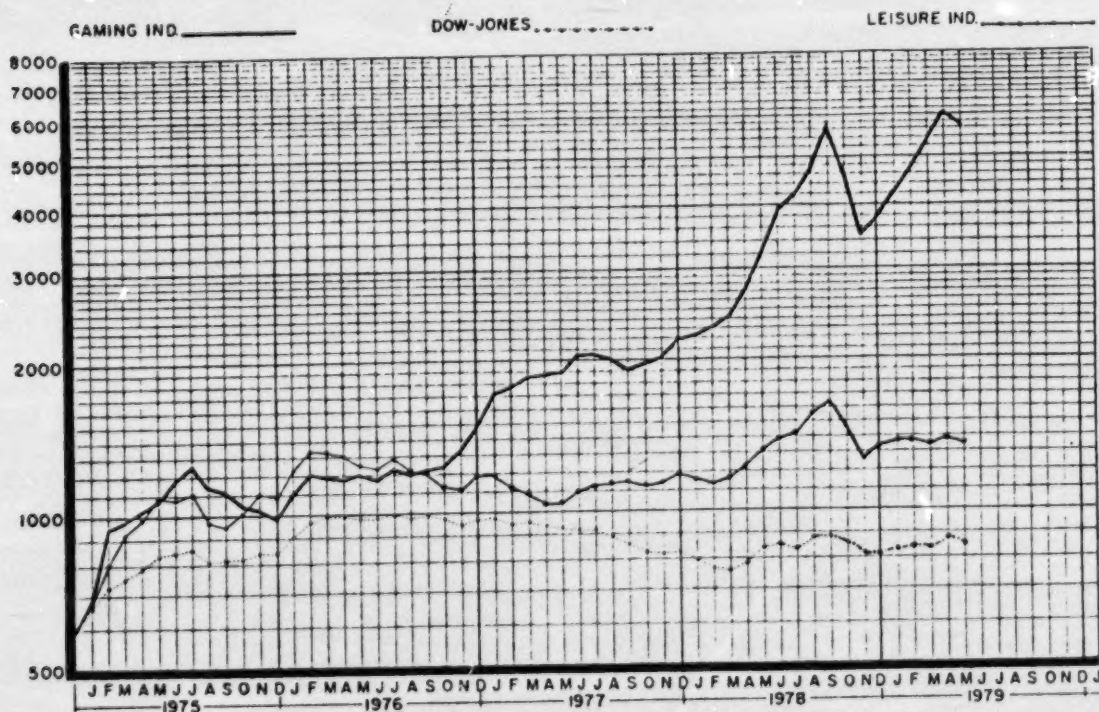


Figure 5

with the actual profit trends of the industry or firm. The gaming industry has shown growth even in periods when the stock market and the economy in general have declined. For example: during the last recession in late 1974, when stocks, including gaming stocks, were at a low, the fourth quarter gross gaming revenues were nearly 15 percent higher than the 1973 fourth quarter. Again in May, June and July of 1970, when the Dow Jones Index dipped into the low 700's, gaming revenues showed modest increases over the same periods of the previous year. Even during the sharp decline in stock prices in the fourth quarter of 1978, gaming revenues were recording new highs.

Continued growth of gaming revenues has led to the belief that gaming is recession resistant, which may or may not be true. It is certainly not true in the case of gaming stocks, which are far more volatile than many other stocks.

Gaming and State Revenues

What does the growth of the gaming industry mean to Nevada? Obviously it means money to the state, and that revenue appears in several ways.

First there is payroll: the casinos directly employ more than 25 percent of Nevada's nonagricultural labor force. In fiscal 1978, some 83,000 employees received more than \$750 million* as salaries and wages. It has been estimated that at least 50 percent of Nevada's nonagricultural labor force have jobs directly or indirectly as a result of gaming.

Table I
Salaries and Wages Paid
in Nevada's Gaming Industry
Fiscal year ended June 30, 1978

	Employees		Salaries and Wages	
	No.	%	millions	%
Gaming department	34,071	41.0	\$322.1	42.9
Food & beverage dept.	26,252	31.6	189.4	25.2
Rooms dept.	8,191	9.9	66.7	8.9
Other operating depts.	14,527	17.5	172.7	23.0
Total all depts.	83,041	100.0	750.9	100.0

After paying their employees, the casinos have to meet operating expenses. For fiscal 1978, the industry paid about \$1.381 billion for such things as utilities, insurance, supplies, repairs and maintenance, the purchase of food and beverages sold, and a host of other operating costs (exclusive of taxes). Of course, much of this was paid to Nevada suppliers.

Table II
Condensed Income Statement
115 major* Nevada casinos
Fiscal year ended June 30, 1978

	Amount	Per
	millions-	cent
Income -		
Gaming	\$1,636.1	
Rooms (hotel & motel)	282.7	
Food sales	346.4	
Beverage sales	247.7	
Other	106.3	
Total income	2,619.2	100.0
Cost of sales -		
Food	141.8	5.4
Beverage	40.5	1.5
Other	31.0	1.2
Total cost of sales	213.3	8.1
Margin	2,405.9	91.9

	Amount	Per
	millions-	cent
Operating costs -		
Advertising & promotion	78.6	3.0
Bad debts	44.5	1.2
Complimentaries	261.8	10.0
Music & entertainment	110.0	4.2
Occupancy (rent and depreciation of premises)	65.5	2.5
Salaries, wages and other payroll costs (includes employer paid payroll taxes)	869.6	33.2
Taxes & licenses (includes gaming taxes & licenses)	141.4	5.4
All other operating costs	468.6	17.9
Total operating costs	2,040.0	77.9

Net income before Federal income taxes and extraordinary items \$ 365.9 14.0

* A major casino is deemed to be one which grosses at least \$1 million annually from gaming.

The industry also paid about 5.6 percent of all its revenues (gaming, room rentals, food and beverage sales, and miscellaneous income) as taxes to all levels of government. To the State of Nevada alone, it paid \$21.7 million in fiscal 1978. This is 7.3 percent of all gaming revenues. Nevada levies a number of tax and license fees on the industry, the primary one being the "percentage tax". This accounts for between 65 and 70 percent of all the state taxes levied on the activity of gaming.

As previously mentioned, this tax was first assessed in 1945 when the state assumed control of gaming. At that time the rate was only 1 percent of all gross gaming revenue which exceeded \$3,000 each quarter. In 1949, legislation removed the \$3,000 base and increased the rate to 2 percent quarterly for all gross gaming revenue.

In 1955, a graduated rate structure was created. This was modified in 1967 and is still in effect as follows:

- 3 percent of all gross gaming revenue up to \$150,000 per quarter, plus
- 4 percent of all gross gaming revenue over \$150,000, but less than \$400,000 each quarter, plus
- 5.5 percent of all gross gaming revenue each quarter over \$400,000.

The next most important tax, as far as size of collection is concerned, is the Casino Entertainment Tax. This was initiated effective July 1, 1965, and was based on the then-existing Federal Cabaret Tax. The rate was set at 5 percent, half of the federal tax. When the Federal Government repealed their cabaret tax on December 31, 1965, the State Casino Entertainment Tax was increased to 10 percent on all merchandise, food, beverages and admissions sold while the casino is actually furnishing entertainment. In 1967, legislation amended this tax to exempt gaming establishments having fifty or fewer slot machines and/or three or fewer games. In fiscal 1978 this tax produced 11.7 percent of the state's gaming tax collections.

Increasingly important is the credit against the "Federal Tax Stamp" on slot machines. Prior to July 1, 1972, all licensees operating slot machines were required to pay the Internal Revenue Service \$250 annually for a Federal Tax Stamp on each slot machine. As a part of the revenue-sharing program of the Federal Government, the U.S. Congress enacted legislation giving Nevada a credit of 80 percent of this revenue (\$200 per machine).

In anticipation of such Federal action, the 1967 Nevada Legislature enacted a law (NRS 463.385) which

enabled the State to assess a tax on licensees equal to any credit against a tax, or a repeal of any tax imposed on slot machines by the Federal Government. For the year beginning July 1, 1972, Nevada collected this \$200 per machine from the licensee. Proof of payment entitles the licensee to a credit of \$200 against the Federal Tax Stamp.

In amending our law to provide for distribution of this tax, the legislature assigned the first \$5 million to the Higher Education Capital Construction Fund and the excess over \$5 million to the State Distributive School Fund for apportionment among the several school districts of the state.

Effective July 1, 1979, the credit to the state is increased to 95 percent of the Federal Tax Stamp, and on July 1, 1980, the federal government will repeal their tax entirely. At that time, as a result of legislative action in 1979, Nevada will receive the entire \$250 per machine. These additional collections have been assigned by the Legisla-

ture to a special higher education construction fund in support of multi-purpose pavilion projects on the campuses of UNR and UNLV.

The increase should make this the second largest tax collection by the state on the gaming industry.

The three taxes discussed accounted for about 92 percent of all the state gaming tax collections in fiscal 1978. The remainder is made up of an Annual License Fee (just under 2 percent of collections) which is distributed equally among the 17 counties after deducting administrative fees; various quarterly flat fees on games and machines (less than 6 percent) and miscellaneous collections (just under 1 percent).

Gaming continues then, to be the mainstay of Nevada's economy. The \$121.7 million in gaming taxes collected in 1978 was about 31 percent of total state revenue collections; and nearly 20 percent of the sales and use tax collections was reported by the gaming industry. Continuing growth of gaming should result in a continuing healthy economy for Nevada.

FOOTNOTES

¹ All revenues taken in as winning by the casinos, less only that which is paid out as customer's winnings.

² The growth rate is computed as the average of the percentages of increase, or decrease, of one year compared to the preceeding year.

³ Clark County - 67.4 percent; Douglas - 9.9 percent; Washoe - 18.6 percent (figures for fiscal 1978).

⁴ Las Vegas Convention Visitors Authority, Marketing Bulletin, 1978 Summary.

⁵ Greater Reno Chamber of Commerce.

⁶ El Dorado County Airport Department.

⁷ Bally Mfg. Co., Caesar's World, Golden Nugget, Harrah's, Hilton Hotels, MGM, Showboat, and Del E. Webb.

⁸ AMF, Inc., Arctic Enterprises, Brunswick Corp., Cessna Aircraft, Coleco Industries, Columbia Pictures, Denny's, Inc., Disney Productions, Fuqua Industries, Greyhound Corp., Holiday Inns, Jantzen, Inc., Marriott Corp., McDonald's Corp., National Airlines, Outboard Marine, Ramada Inns, Twentieth Century Fox, UAL, Inc., and Winnebago Industries.

⁹ Nevada Gaming Abstract, 1978, Economic Research section, State Gaming Control Board.



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The Only Alternative To The Property Tax: A Better Property Tax

Walter Rybeck

Delivered at the International Conference on Assessment Administration, Toronto, Canada, September 19, 1978

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In one sense there is no alternative to the property tax. It is unique. It performs good and necessary functions that no other tax duplicates. Yet none of us would claim that the property tax in its present form is a model of perfection. In that sense, the best alternative to the property tax is a better property tax.

There are no practical or logical reasons that we cannot attain that better property tax. Perhaps the chief obstacles are the mental images that stand in the way of understanding. How these images hold us captive was nicely explained by Den Marquis, the light-hearted philosopher. In what he modestly dubbed "The Almost Perfect State," Marquis wrote:

Personally, I was never able to see the remotest resemblance to anything like a human face in the moon. But when I was a child I was told that there was a face in the moon; presently, I thought I *should* see it, and began to say I saw it. And all my life I have gone on lying about it — talking and even writing about the Man in the Moon.

The myths surrounding the property tax are more formidable than how the moon appears to earthlings. But if Marquis, back in the 1920s and long before moon landings could discern that there was no face on the moon, and could further conclude that the moon was not made of green cheese, we should not now despair about the public's ability to sift through the bizarre notions that momentarily obscure a clear vision of property tax issues.

Whatever the power of false images, in this year of the Great Tax Revolt it could be perilous to fail to stand up to those who seek to maim or abolish the property tax. For if they succeed, it would be a calamity of the first magnitude, depriving us of a tax that can be one of our keys to an independent and prosperous future.

Howard Jarvis made himself a legitimate target when he designed the amendment that erodes the California property tax and sets back assessment administration in that state by light years. We can aim our retaliatory barbs at him in the spirit of the spearthrower who said, as he took aim at his foe, "This should put some iron in his blood." Of course, Jarvis is far from the only villain in the act. In passing out responsibility, we should not overlook the long parade of economists who have gained the spotlight by kicking the property tax. Nor should we forget all the politicians who have won acclaim by taking cheap shots at property taxes and assessments. How long has it

been since you heard public finance specialists or local politicians stand up in public to say anything favorable about the property tax?

No wonder, after continuously hearing property taxes bad-mouthed by their leaders, citizens consistently list the property tax as their least popular tax. And no wonder they will follow a Jarvis, or his clones that are cropping up elsewhere, giving up their birthright in good property taxation for a mess of tax relief potage.

It cannot be emphasized too much that the property tax is one of the best taxes in our fiscal kit of tools. Property values grow as the community grows, providing a kind of natural income for it. Tapping a local source of revenue, the property tax can prevent communities from becoming too dependent on distant, centralized governments. The property tax alone enables the city or county to recoup values which they create through public works and services. And the tax is one of the few that citizens can readily speed up or slow down to exercise control over their officials.

To restore this tax to the reputation it deserves requires weeding out its counterproductive features. The most notorious of these features, in my view, is the taxation of improvements.

A look at some of the false images surrounding the property tax may suggest why the *untaxing* of housing and other buildings should take high priority in the battle to save the property tax:

Fable Number 1. *A site value tax would be a new tax.* Far from being a new tax, we already have the site value or land value tax. We have always had it. Are there any assessors who are not assessing land or any jurisdictions that are not taxing it? We do not base the tax on land exclusively, but we certainly tax land.

A pure site value tax is what remains when improvements are excluded from the tax. Such an exclusion would not be novel. In the United States, the property tax started out mostly as a land tax. Then we went through a long period of adding a wide array of things to produce an all-encompassing general property tax. More recently, as John B. Reckham has pointed out, there has been a trend to get back to basics. Among the items that many states have discarded — because of their negative impacts or their difficulty of enforcement — have been business inventories and personal property. Clearly, after these facets of the tax had outlived their usefulness and had been eliminated, the property tax that remained was not viewed as some strange, unfamiliar creature. The site

therefore, refer at least in some degree to the property tax that is now under siege.

Fable Number 2. The property tax is inelastic. According to this old saw, property tax receipts fail to keep pace with economic expansion and growth of incomes. The public finance experts who used to repeat this alleged weakness were remarkably silent when Californians and others began protesting that the property tax was too elastic. These experts claimed that the tax had reached its upper limits by World War II. If so, it has certainly been reborn as a revenue producer. From 1920 through 1945, property tax collections nationwide ranged from four to five billion dollars a year. By 1955 they rose to \$11 billion. By 1970 to \$30 billion. And now to \$65 billion. So much for inelasticity.

Fable Number 3. The property tax is regressive. Strong evidence to the contrary has been developed by Mason Gaffney, Henry Aaron and others. Where faulty assessment procedures favor wealthy property holders, the tax may weigh more heavily on the poor. But a tax system cannot be fairly condemned because its rules are disregarded in particular instances. The warranty for the evenhandedness of the tax assumes normal care and handling.

However, the regressive theory wins adherents to the extent taxes on rental homes and apartments are passed on to low-income tenants. Untaxing these buildings would make the property tax decidedly more progressive. And because valuable lands are highly concentrated in the hands of the rich, a site value tax would offer substantial relief to middle- and lower-income families.

Fable Number 4. The property tax is confiscatory. Jarvis revived this mythology during the Proposition 13 campaign. He urged citizens to save themselves from the oppressive taxation of Latin America's "dictator countries" and from what he called the "English disease." On this point, Jarvis scores high on inventiveness.

As Gaffney remarked, poor South American nations have had Proposition 13 for most of their history. When I worked in Ecuador, property was barely taxed at all. Ecuadorians had a saying, "We're a rich land but a poor people." While mostly true, some of the people — those in the small landholding class that held rural and urban areas in their grip — were fabulously wealthy. One would have to be exceedingly naive to suppose that this ruling class shielded the property they owned from taxation out of concern for the impoverished masses. England's landed gentry, too, have managed fairly well to shelter property from taxation; it is the incomes of England's working people that are being taxed to the bone.

One of the virtues of the property tax which emerges from the pages of our history is that it can be a brake against the confiscation of land by the few from the many. The contrast between socioeconomic conditions in the nations settled by the British, which relied almost exclusively on the property tax for local revenues, and the nations settled by the Portuguese and Spanish, which did not, speaks eloquently to this point.

Until a century ago, virtually all local government revenue and the bulk of state funds in the United States were derived from property taxes; federal taxes, except for tariffs, were minute. This era when the property tax reigned supreme coincided with the nation's most dynamic growth. Upward mobility was at a maximum. The very

idea of a poverty class seemed unAmerican. The property tax, far from being considered confiscatory, was widely accepted as a necessary element of a just economy.

Fable Number 5. The property tax is inflationary. This is half fable, half true. The tax on buildings is inflationary, the tax on land is not. When both are linked together, their opposing impacts somewhat cancel each other out. This helps explain why the substantial property tax cut in California did not bring tenants the instant rent reductions Jarvis promised. Because Jarvis was a long-time lobbyist for apartment owners, some suspect his promise was simply a cynical ploy to win votes. It is conceivable, nevertheless, that Jarvis was really confused, along with the typical American, thanks to the failure of most economists to spell out how taxes on land and on buildings behave differently.

It is common experience to watch taxes force prices up. We see this tax inflation at the gasoline pump, or at checkout counters where sales taxes are added to the cost of purchases. Taxes on houses and commercial structures follow this pattern. The higher the taxes, the higher the total prices.

Taxes on land, however, do not work this way. Mysterious or counterintuitive as it may appear, the higher the tax on land, the lower its price falls, as real estate brokers know from practical experience. Because of this, I predicted that Proposition 13 may have an inflationary impact on land prices:

Of (California's) \$7 billion tax cut, at least 40 percent, or \$2.8 billion, represents land values. This is likely to be capitalized in increased land prices, adding \$45 billion or more on top of already staggeringly high land prices.

How this capitalization effect occurs is illustrated by a specific example:

You bought a piece of land in 1975 for \$150,000; annual property taxes were \$4,200. Under Proposition 13, the tax is cut to \$1,500. This annual tax savings of \$2,700 makes the land more attractive by the amount one would have to put in the bank to reap \$2,700 a year. At 6 percent interest, this would be \$45,000. Thus, the \$150,000 property now sells for \$195,000, a 30 percent increase.

I hope I am wrong about this prediction of escalating land prices in California. Since my example deals exclusively with a case of bare land, the effect may be mitigated somewhat by the reduction in taxes on buildings. But what land economics teaches in general is this: high taxes on buildings and low taxes on land create a double-barreled inflationary effect. The maximum anti-inflationary effects can be realized by reducing or eliminating the taxes on buildings and shifting them to land values.

Fable Number 6. Property taxes don't make much difference. Tell it to Governor Brown and the legislators in Sacramento who disregarded citizen pleas for relief. Tell it to cities like Boston where little private commercial building occurs unless developers first win property tax abatements for twenty years or more. Tell it to communities that lure commerce and industry with property tax reductions. Tell it to the Minneapolis-St. Paul region where, to halt tax warfare among neighboring jurisdictions, a tax-base sharing system was instituted.

Tell it to all the people sitting on land ripe for development who find it more profitable to hold their parcels out

where, to halt tax warfare among neighboring jurisdictions, a tax-base sharing system was instituted.

Tell it to all the people sitting on land ripe for development who find it more profitable to hold their parcels out of use. From their perspective, a land tax is a holding cost. If this cost is low relative to the annual increase in value of the site (actual or anticipated), owners sit patiently while gains accrue without any effort on their part. These decisions to withhold land from use are reinforced by the knowledge that any buildings they construct on the site will immediately bring forth higher taxes.

The fairytale that property taxes make little difference to land speculation, blight, urban sprawl, housing supply, and business locations has been peddled by many academics. This is puzzling until you realize that those who state this viewpoint have neglected to differentiate between land taxes and improvement taxes. Both taxes are very potent. But they pull in opposite directions, like two locomotives on either end of a train, one chugging north and the other chugging south. An observer looking only at the way the freight cars jerk back and forth might falsely conclude the locomotives were weak.

Jarvis recognized that the property tax did make a difference. Focusing exclusively on the building tax locomotive, he struck paydirt with voters by reminding them how the tax, in effect, punished property owners who built or remodeled, even though these activities put people to work and improved city neighborhoods. The quarrel with Jarvis on this point is that he tarred and feathered the whole property tax, not just the building tax that has been causing so much individual and social pain.

Cartoonist Herblock recently pictured a renovated home and a homeowner proudly telling the wife and kids, "We had to break the piggy bank to do it, but we finally got the old house fixed up." An assessor is shown slinking around the side of the house, toting up its higher taxable value. What bothered me was the implication that the assessor was the villain. He merely carries out the laws mandating that improvements be included in the property tax base. The laws, not the assessors, impose this disincentive to housing construction and maintenance. Homeowners and other citizens who tolerate such laws are not without blame. If citizens dislike the laws, they may look to Pennsylvania and the District of Columbia for examples of enabling laws that permit taxes on improvements to be reduced or eliminated. Australia and New Zealand have undertaken wholesale abandonment of property taxes on buildings, and with good results.

Fable Number 7. Site value reform must await assessment reform. I confess that for years I have often gone along with this view. But it proved to be a soap bubble punctured by Proposition 13. California has been among the nation's leaders in the drive to achieve accurate, uniform, frequent assessments, yet that is where the ax fell. Was this coincidental? Apparently, the full and timely reassessments during a highly inflationary period exaggerated the defects of the property tax, making it more onerous and contributing to the taxpayer revolt. Political leaders welcomed assessment reforms and the greater revenues they produced. Where taxpayers complained about escalating burdens, politicians blamed assessments, conveniently forgetting to mention that they alone had the power to raise — and lower — property tax rates.

Let me stress that my support of reforms to make assessments as uniform and fair as humanly possible is in no way diminished. But these reforms should be undertaken in tandem with the move to rid the tax of its punitive impact on those who build and maintain our communities. A clock seems to be running out on the public's tolerance of the property tax in its present state. We no longer have the luxury of dealing with its problems one at a time.

Fable Number 8. The property tax is the most burdensome tax. This myth is so much at odds with the facts that many commentators concluded that Proposition 13 supporters simply clobbered property taxes to register their displeasure with *all* taxes. The polls do not entirely support this view; they reveal tremendous anti-property tax sentiment. Perhaps tax administrators unwittingly perpetuate this sentiment by their inattention to a small but critical detail — the method of payment.

Why not take a cue from the income tax fraternity? They collect taxes, seemingly painlessly, via paychecks. They often take out too much, using interest-free money that does not belong to them until accounts are settled each year. Instead of resenting these excess payments, most taxpayers look at the refunds as windfalls. They are so grateful they tell friends how many hundreds they get back, hardly noticing how many thousands they paid in.

In contrast, the annual lump sum payment of property taxes hits many homeowners like a ton of bricks. The cash flow problem is avoided when mortgage lenders require property taxes to be paid in advance in monthly installments, along with capital, interest, and insurance. For owners who lack this mechanism, why not devise property tax payroll deduction plans for people on wages and salaries? And for retirees and others who do not receive regular payroll checks, why not devise automatic monthly payment plans through checking accounts, of the sort that many insurance firms utilize?

Officials who resolve this seemingly minor payments problem are likely to become heroes to their constituents. No doubt they will be widely copied, and they will do much to strengthen property tax support in the future.

If there is a move to modernize the property tax, leaving it as a tax on land values alone, some have suggested that the tax rate on land values be progressive. Jefferson, according to a letter written in 1795, favored such an approach. Among nations that have levied land taxes at increasingly high rates as parcels become larger or more valuable are Australia, Brazil, Egypt, and Poland. Taiwan offers an interesting current example.

Taiwan levies a flat 1 percent land tax on small plots of urban land occupied by owners. It levies a flat 1.5 percent land tax on sites in industrial use. But it levies a progressive land tax ranging from 2 to 7 percent on large, valuable holdings. According to Shih-ko Shen, director of Taiwan's Land Bureau, this strategy prevents land speculation and facilitates land acquisition by actual users. There is reason to believe that Taiwan's landlords, after seeing landlords literally wiped out by Communists on the Chinese mainland, accepted this remarkable system as their ticket to survival.

My preference is for a neutral property tax. It is now biased in the United States against land use in favor of land holding. This could be corrected by removing the tax on improvements, requiring land users to pay no

ism of an almost feudal nature had taken hold — in which a progressive land tax might be considered necessary.

Let me conclude by stressing again that the property tax is one of the best taxes. The tax on buildings, however, strikes me as one of the least desirable taxes — a weakness that detracts from our property tax. Removing this building tax will help defuse the taxpayer revolt by combining relief with tax equity. It will do this without

strangling local government finances; on the contrary, taxing site values should strengthen the local tax base. It will encourage more compact land use — no small matter in an era of energy shortages. And it will help suppress the inflation that has become one of our most critical domestic problems.

In sum, it makes sense to appreciate and hold fast to what is best in the property tax.

Walter Rybeck is Special Assistant to the Chairman of the U.S. House of Representatives Committee on Banking, Finance and Urban Affairs.

Remove the Tax on Food!

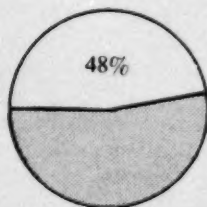
by Mary Gojack

This paper by Ms. Gojack appeared in the preview issue of the *Review*. Since that time, voters overwhelmingly endorsed elimination of the tax on food, seemingly corroborating the author's argument that legislators had thwarted the popular will. But legislators made elimination of the food tax contingent on the voter rejection of Question Six in 1980. Consequently, the article remains timely, in addition to providing an interpretation with historical value.

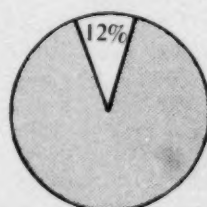
Among all the current proposals for tax reform, one method stands out as relatively easy to administer and as providing the greatest benefit to those most in need. Moreover, despite doubts raised by special interests that oppose repeal, removal of the state sales tax from food purchased in grocery stores is not difficult to implement and can be absorbed comfortably within current and projected state surpluses. This essay will explain the feasibility of exempting food from the Nevada sales tax, show why such an exemption is a good idea, and recount the history of Nevada's experience with the tax on food.

Why Food Taxation is Bad Taxation

The strongest and most direct objection to taxing food is that it is a tax on a necessity. This objection may not be important for the affluent but it is vital for those who are poor. For them, a tax on food is a real burden, not only because they are poor, but also because much more of their income goes for needed food.¹ The following estimates make this point graphically:²



\$5,000 Income/Yr.



\$25,000 Income/Yr.

Any tax on necessities, therefore, raises basic questions of social justice and equity.

The second objection is that a sales tax on necessities not only is unjust and inequitable, it also is regressive. A sales tax is a flat, or constant rate, tax on purchases. It does not apply to spending on investments or even payments for housing. So in practice, the poor pay a larger percentage of their income in sales taxes than do the affluent. If we followed the same practice with income taxes we would have to tip the graduated scale of tax

rates upside down! But with the sales tax, we place the greatest burden on those least able to pay.

It has been argued that exemption of food from sales taxation would be administratively difficult and costly for those who operate grocery stores. It is also claimed that exemption would seriously erode the state tax base. How valid are these objections?

How difficult and costly would it be for the operators of grocery stores to separate groceries from other items that still would be subject to the sales tax? For large operators, experience in other states shows that computerization can simplify the check-out process and also cut administrative costs. Large stores manage quite well. But those who might be expected to suffer more are the small operators. In 1976 the operators of "Mom and Pop" stores in Nevada were surveyed. Their responses indicated they thought separation of taxed and non-taxed items would be fairly simple once categories for exemption were established.³

It is undeniable that the state would lose present and potential revenue if food were exempted from the sales tax; any tax reduction reduces tax revenues. The real question is whether we can absorb that loss in tax revenues without reducing existing programs.

As a result of Nevada's legislative history (recounted later in this essay), we collect a 2 percent sales tax levy for the State General Fund, another 1 percent for school support, and an additional .5 percent in many counties that is divided among city and county governments. There are also collection fees charged for school and city-county assessments. Table 1 shows the sales taxes remitted to the Department of Taxation and distributed to the state (2 percent), schools (1 percent), and cities and counties (1/2 percent) during the 12-month period from June 1977 through May 1978. This period was chosen to correspond with the collection cash flow during the fiscal year.

TABLE 1

	2% Sales	School Support	City-County Relief
Tax Distributed			
State Collection	\$94,525,719	\$47,504,029	\$23,268,404
Allowances:		437,143	235,035
Total Collection:	\$94,525,719	\$47,941,172	\$23,503,439

There have been a number of estimates in recent years of the percentage of the total sales tax revenue that results from taxation of food. A Department of Taxation survey conducted in the summer of 1978 suggested that about

10.4% of total sales tax revenues resulted from levies on food. Other estimates have claimed as much as 12.8%. At the high estimate, the total revenue loss would have been slightly over \$21 million; at the low estimate, slightly over \$17 million (see Table 2).⁴

TABLE 2

	State	Schools	Cities- Counties
Revenue Loss (at 12.8%)	\$12,185,330	\$6,080,515	\$2,978,355
Revenue Loss (at 10.4%)	\$ 9,900,581	\$4,940,419	\$4,419,914

During the 1977-78 fiscal year, Nevada collected approximately \$245.5 million for its general fund and had an additional \$5 million in reversions from unspent prior appropriations. Against these revenues of \$250.5 million, it appropriated \$221 million, leaving a surplus of at least \$29.5 million. If **current collection trends continue**, the surplus by the end of 1979 fiscal year could reach \$160-170 million.

Despite a revenue loss of as much as \$24 million (bringing the earlier estimate for sales tax from food revenues up-to-date) from exempting food, Nevada not only could absorb its loss but could easily reimburse schools, cities and counties for their losses. To do so would be at least as reasonable as exempting proceeds from mines and prescription drugs. But if the removal of the sales tax from food is so affordable, fair, and easily implemented, why have exemption proposals encountered so much resistance from Nevada legislators? To answer this question requires an understanding of the development of the sales tax in Nevada, legal challenges to sales taxation, and the political debates that have erupted in response to recent attempts at tax reform.

A History of the Sales Tax in Nevada

Nevada's slogan for many years was, "One Sound State": no income tax, no inheritance tax and no sales tax. This posture was consciously adopted during the Depression years and their aftermath to encourage people to move to Nevada. Legalized casino gaming was developing rapidly, and the resulting influx of tourists provided substantial revenue for the state. Other states, lacking the gaming tax source, began to enact sales tax legislation to increase revenue for public needs.

Nevada fared quite well, comparatively, during those years. The 1955 Peabody Report to the Nevada Legislature noted that the state ranked either first or second in per capita income among the eleven western states from 1929 to 1945, and consistently first from 1945 to 1955.⁵ But by 1955 the state was experiencing a crisis in its public schools. Migration and the baby boom meant more students. Their parents were clamoring for more teachers and more schools, and that required more money. Would local districts raise money through higher property taxes? The state through higher taxes on gaming? Or would the ban on income, inheritance or sales taxes be lifted?

The answer came in the form of a campaign, led by Aleta Gray and Mary Ellen Glass of Reno, to "Save Our Schools." The specific goal of the SOS campaign was a 2 percent general sales tax to finance state support for local schools. On February 24, 1955, SB 171 was introduced by the Senate Committee on Finance. It was modeled after California legislation, including exemption of food for human consumption. SB 171 passed in the Senate with

little recorded opposition.⁶ But it faced various amendment efforts in the Assembly. Finally, Chairman Embry (D-Mesquite) of the Committee on Taxation obtained passage of a motion to remove the exemption of food by a wide margin of 34-10. The Assembly version of the sales tax prevailed, with the result that food was to be taxed.

An effort by Assemblyman Don Crawford of Washoe County to lift the tax from food died in committee two years later. The effort was resurrected by Senators Jim Slattery and Bill Farr in 1967; again it failed. Instead, the legislature authorized a Local School Support Tax of 1 percent, to be collected along with the general sales tax. This in effect raised the general sales tax to 3 percent, but freed the original 2 percent to support non-school programs and higher education.

The new tax was challenged in court by Joseph Matthews, on grounds that a measure that had to be approved by referendum could not be amended without submitting the amendment to the voters.⁷ The court held instead that the Local School Support Tax was a separate tax.⁸

With this interpretation in mind, the 1969 Legislature added the *optional* 0.5 percent County-City Relief Tax. In a resultant suit against Clark County and the Nevada Tax Commission, Michael and Arlene Mack contended that this law and an implementing Clark County ordinance were unconstitutional because: 1) they amended a referred measure without an additional vote of the people; 2) the legislature could not delegate its powers of taxation to counties; 3) property was being taken without due process of law, thereby violating guarantees in both the Nevada and United States constitutions.⁹

Justice Mowbray's opinion for the Nevada Supreme Court denied the first two allegations. To the third, he replied that it was the Mack's customers, not the Macks themselves who actually paid the tax. As mere collectors for the state, the Macks had no claim.

The legal challenges and political publicity created a great deal of confusion. When gubernatorial candidate Ed Fike announced in 1970 that if elected he would abolish the sales tax on food, Mike O'Callaghan countered with an ad headlined "The Grocery Sales Tax Hoax." The ad argued that it was not legally possible to exempt food without a direct vote of the people. O'Callaghan's campaign pledge — "no new taxes" — tended to stifle repeal efforts that would have involved shifting the tax burden.

In 1973, several northern Nevada assemblymen again sought repeal. School officials testified that repeal would hurt education. Gaming lobbyists warned against tampering with the state's tax structure. The bill died in committee once more.

The debate again went to the public in the 1974 Senate race between veteran Assemblyman Randy Capurro and single-term Assemblywoman Mary Gojack. Capurro announced a plan to eliminate the tax on food. Gojack countered with an ad patterned after O'Callaghan's. Both favored eliminating the tax.

Upon election, Senator Gojack requested that the Legislative Counsel Bureau draft legislation that would begin the process of removing the tax on food. SB 386 cleared the Senate Taxation Committee and was unanimously passed by the Senate. But hearings were delayed in the Assembly Taxation Committee. Cursory hearings were

finally held in the closing days of the session but no vote was taken, so the bill failed again in 1975.

Who killed the bill? Some members of the Assembly spoke bitterly of a deal with senators who hadn't wanted to go on record as opposed to a popular measure, in exchange for senate votes on other issues.

In 1977, a majority of senate members co-sponsored another repeal bill. This time it failed to clear the Taxation Committee. An alternate bill by Senator "Ty" Hilbrecht (D-Clark County) called for tax rebates on groceries purchased by people in lower income brackets. However, hearings indicated that it would be difficult to administer, and it lacked support from those who sought total exemption of food from sales taxation. Consequently, Hilbrecht's measure also failed.

The recent electoral campaign included many statements by candidates on the food tax issue. It also produced a belated and poorly financed effort to demand a referendum through a statewide initiative. Though the effort fell short, its message is part of the general mood favoring tax reform.

This session's version of the food tax exemption measure is Assembly Bill 2. It has received statements of support from Governor Robert List and from a majority of the state's legislators. The key hurdles may continue to be the money committees of the Assembly and the Senate. Some critics still will insist that we cannot afford the loss of revenues. But in light of the ever-increasing budget surplus and the indefensible inequity of the present tax on groceries, the time for passage may finally have come.

FOOTNOTES

¹Library of Congress, Congressional Research Service, "General Sales Tax Rates, Food Exemptions and Sales Tax Credits, With a Pro and Con Analysis," Jane Gravelle, Analyst in Public Finance Economics Division, Sept. 6, 1972.

²Testimony before Senate Taxation Committee, Feb. 24, 1977, Lawrence J. Smart, United Methodist Urban Minister, Clark County.

³Webster City, Iowa, *Freeman Journal*, July 8, 1974, "What Do You Think?" "Have you had any major problems with the new tax break on most foods, which became effective Monday, July 1st?" The question was posed to four managers as owners of food markets, both chains and independents.

⁴Legislative Counsel Bureau, William O. Bible, Fiscal Analyst, Fiscal Analysis Division, Memorandum to Senator Mary Gojack, August 28, 1978.

⁵George Peabody College For Teachers, Nashville, Tenn. *Public Education in Nevada*, Survey Report.

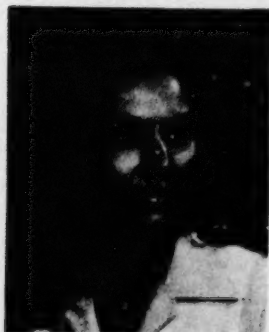
⁶Senate Bill No. 171, Committee on Finance, Feb. 24, 1955, Section 53.

⁷This is the same Joe Matthews who successfully pushed Proposition 6.

This was a test case in which the Legislative Counsel Bureau cooperated. Mr. Matthews' attorney was Bob Grayson.

⁸Joseph E. Matthews, Petitioner, v. State of Nevada Ex Rel. Tax Commission, Respondent, No. 5358, June 6, 1967, 428 P.2d 371, Nevada.

⁹City of Las Vegas, Nevada, City of Henderson, Nevada, City of North Las Vegas, and City of Boulder City, Nev., appellants, v. Michael Mack and Arlene Mack, Respondent, No. 6295, March 3, 1971, 481 P.2d 396.



Mary Gojack is a former State Senator, currently with Nevada National Bank.

The Funding of Public Education in Nevada

by Peter Steinmann and Richard Ganzel

The contemporary period of rapid growth in Nevada's economy and population has produced demands for increased public services of all kinds. At the same time, a nation-wide movement for tax reductions has gained momentum. Consequently, citizens and legislators are looking anxiously for public services that have been funded generously in the past, in the hope that funding cuts might be made without drastically harming the quality of services. Public education is an especially inviting target in Nevada, if for no other reason than that it comprised approximately 55 percent of total state general fund expenditures in 1977-78¹

But is it true that the quality of public education in Nevada would not be hurt by cutbacks? How generously have we funded education in the past? Although it is true that there is no simple one-to-one relationship between spending for education and educational quality, a comparison of actual expenditures and appropriations for education by the various states does provide one objective measure of probable quality. (A related comparison of ability to pay for education and other services — that is, the potential a state has for generating revenue — reinforces that assessment by suggesting the degree of commitment a group has to providing a particular quality of service.) In this study, comparisons are presented that indicate that Nevada could afford to fund educational and other services at a very high level. However, data on actual expenditures indicate that Nevadans have not chosen to do so. Because current funding levels are low further cuts could do real damage.

Tax Capacity and Tax Effort

Affluent families in American cities have tended to cluster in neighborhoods and, in most cases, they have spent very generously on their schools. Some have supported education for its own sake, while others have recognized the strong relationship between quality education and subsequent earnings potential. What better way could they choose to ensure that family wealth would survive over generations? In many instances, these values are shared by middle income or even lower income families, especially in neighborhoods, cities, or cultures that have developed a strong appreciation for education. This should serve as a warning to researchers who might be tempted to assign causative significance to relationships between wealth or income and support for education. Clearly, the interaction patterns reflected in families, neighborhoods, cities, regions, or sub-cultures are important. Wealth slowly accumulated over generations may be reflected in continuing support for education, regard-

less of the income of the present generation. Some of those currently earning high incomes may do so despite little formal education; it would be surprising to expect them to be unqualified supporters of education.

When researchers have attempted to relate the income or wealth of states to their support for education, they have found substantial variation in correlations. Unsatisfied, they have sought to refine the concepts utilized in their measurements in an effort to clarify these relationships. The result has been new definitions of ability to pay and willingness to pay.

Per capita income has been the traditional measure of ability to pay. Generally, per capita income says little about the distribution of income and therefore misses at least some of the status motivations that might lead some to spend on education while others spend on consumer goods. It also fails to include ability to pay resulting from the investment of past income in forms of wealth such as property that generates little or no income. In Nevada, the measure also has been criticized for underestimating the income and taxation potential of hotel and amusement businesses. Nevertheless, Nevada's fourth-place rank in 1977 among states in per capita income suggests a very high ability to pay.² The traditional companion measure of willingness to pay is per capita tax revenues. In 1977, Nevada ranked twelfth in taxes collected per capita.³ But no one should conclude from this ranking that Nevadans tax themselves heavily. If it were not for the levies borne by tourists, the ranking would be much lower. Clearly, the traditional measures have little utility for Nevada.

A different approach substitutes the language of tax capacity for ability to pay. Tax capacity is defined as the ability of a state (or other entity) to raise tax revenues from its own sources.⁴ Stated more precisely in dollars per capita, tax capacity provides a common measure of the potential tax revenues of respective states "if all fifty states applied identical tax rates to their respective tax bases."⁵ The companion measure, tax effort, shows the extent to which states utilize their fiscal base by comparing actual tax collections with estimated tax capacity.⁶ States adopt tax rates higher or lower than the average, a clear indication of willingness to pay for governmental services such as education.

The data presented in Table 1 is striking. It shows that Nevada ranks first in tax capacity and next to last in tax effort. In part, this reveals that untapped tax potential of gaming revenues. But it also reflects the absence of a state income tax on individuals and corporations, a low rate of taxation on sales, and only average taxation rates

on property. To put these relationships in a national perspective, if Nevada taxpayers had been taxed at the average rate paid in other states, local and state legislators in 1975 would have had an additional \$173 million *per year* to spend on highways, parks, schools, and other public programs.⁷ The figure would be much higher today.

See Table I, page 24.

Looking more closely at two tax rates that were cut by the 1979 Nevada Legislature, Nevada ranked first in capacity to raise per capita revenues from a general sales tax and forty-fourth in actual effort. It ranked tenth in capacity to tax property and twenty-fifth (forty-fifth for farm property) in actual effort. Two levies which had been mentioned for possible increases also are interesting. Nevada ranks first in capacity to raise revenues from taxes on sales of alcoholic beverages but forty-eighth in actual effort. Again, it ranks first in capacity to raise revenues from licensing fees for businesses selling alcoholic beverages but forty-eighth in actual effort.⁸

There is no escaping the twofold conclusion that Nevada could have a great deal of tax revenue to support public programs, even without increasing taxes on its own residents, but has chosen to keep tax rates low. Its phenomenal growth may reflect that strategy — at least in part (it is uncertain how much of the growth in gaming instead has reflected its formerly unique legal situation). The next question we address is whether that strategy also is consistent with adequate financing for a high quality system of education in the state.

Funding of Public Higher Education in Nevada

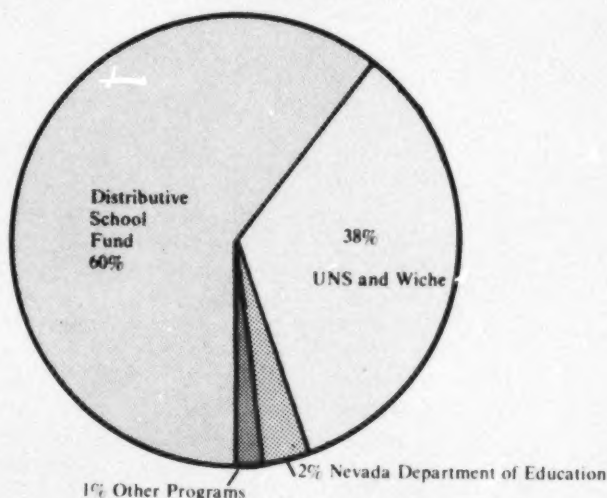
Unlike the case in many states, higher education in Nevada is almost exclusively a public concern. Consequently, individuals and businesses are free of the constant requests from friends and acquaintances for donations to private colleges and universities that typify other locations. They might be expected to respond with a willingness to finance public institutions at a higher level. Approximately 22 percent of total recommended state general fund expenditures for the 1975-77 biennium went for support of the operating budgets of the University of Nevada System and the Western Interstate Compact for Higher Education.⁹ How does this level of expenditure compare with support for higher education by other states?

If one compares expended funds for operating costs per full-time student for the 1975-76 school year, Nevada ranked forty-fifth in the nation.¹⁰ Using a measure similar to one critiqued earlier in this paper, Nevada ranked thirty-fifth in appropriations per \$1,000 of personal income in 1977-78.¹¹ Possibly the best overall measure is one that excludes federal contributions administered through the states. For 1977-78, Nevada appropriated 13.8 percent of total state tax revenues to support operating expenses in public higher education. That performance ranked thirty-eighth in the nation.¹² In light of these comparisons it is difficult to seriously argue that public higher education is funded adequately, much less generously, in Nevada.

Funding of Elementary and Secondary Education

When one considers support for elementary and secondary education, for the Nevada Department of Education, and for minor related programs in addition to support for higher education, the funding of public education constitutes 57 percent of total general fund appropriations.¹³ The following chart summarizes the current breakdown of allocations. To give context to this raw figure a number of comparisons are offered.

STATE GENERAL FUND SUPPORT FOR EDUCATION, 1978



Nevada ranked twenty-seventh nationally in current expenditures per pupil in average daily attendance in public elementary and secondary schools during 1977-78,¹⁴ spending at 90 percent of the average level of all states. That level of support is down from expenditures at 103 percent of the national average for 1967-68.

The reader seeking to assess such data should keep in mind that costs of living in Nevada are comparatively high. Consequently, even average levels of overall expenditures buy less-than-average products. This fact is brought home most clearly when one poses the question: how much teacher time is purchased by Nevada's expenditures on elementary and secondary education? As Table II demonstrates, the situation has become critical.¹⁵ Nevada now has the dubious distinction of ranking last — by a wide margin — in pupil-teacher ratios.

See Table II, page 25.

There has been much concern in recent years about declining performance of Nevada students, as measured by a variety of national tests; teachers and administrators have been blamed. But should one be surprised? Funding is well below average and declining according to available measures. As a closer look at Table II indicates, while other states (on average) have been willing to support more teacher time per pupil, Nevada's support has actually declined. Since 1970, it has declined precipitously. And what should our children think about the value of education when a state that ranks at or near the top in capacity to finance education chooses to spend so little?

TABLE I

Tax Capacity			Tax Effort		
Rank		Index	Rank		Index
1	Nevada	151	1	New York	152
2	Wyoming	147	2	Massachusetts	131
3	Alaska	143	3	Vermont	121
4	Delaware	122		California	120
5	District of Columbia	120	4	Hawaii	120
6	Illinois	114		Wisconsin	120
7	Texas	113	5	Maine	118
8	New Jersey	111		Minnesota	115
9	California	110	6	Rhode Island	115
10	Hawaii	109	7	Connecticut	113
11	Kansas	105		Arizona	109
12	Colorado	104	9	Michigan	105
	Iowa	103	10	Maryland	104
13	Louisiana	103	11	Washington	101
	Nebraska	103	12	New Jersey	99
	Maryland	102		Oregon	99
	New York	102	13	Illinois	97
14	Ohio	102		Mississippi	97
	Oklahoma	102		Montana	96
15	Michigan	101	14	Pennsylvania	96
16	Washington	100	15	Iowa	95
17	North Dakota	99	16	North Dakota	94
	Florida	98	17	Idaho	93
	Indiana	98		Colorado	92
18	Minnesota	98	18	Indiana	92
	Montana	98	19	Utah	91
	Oregon	98	20	District of Columbia	90
19	New Hampshire	97		South Dakota	90
20	Connecticut	95		New Mexico	88
	Massachusetts	94	21	North Carolina	88
21	Missouri	94		Virginia	88
	Pennsylvania	94		Georgia	87
	Arizona	93	22	Kansas	87
22	New Mexico	93		South Carolina	87
	Virginia	93	23	Delaware	86
	Wisconsin	93		Nebraska	86
23	South Dakota	91	24	Missouri	85
	Kentucky	90		West Virginia	85
24	West Virginia	90	25	Alaska	84
25	Georgia	88	26	Louisiana	82
26	Idaho	87		Kentucky	81
	Rhode Island	86	27	Tennessee	81
27	Utah	86		New Hampshire	80
	Vermont	84	28	Ohio	80
28	North Carolina	84		Alabama	79
29	Tennessee	82	29	Arkansas	79
	Alabama	78		Florida	79
30	Arkansas	78	30	Wyoming	73
31	South Carolina	77	31	Oklahoma	71
32	Maine	74	32	Nevada	70
33	Mississippi	70	33	Texas	68

NOTE: This table is derived from Table I in D. Kent Halstead, *Tax Wealth In Fifty States*, National Institute, U.S. Department of Health, Education, and Welfare (U.S. Government Printing Office, Washington, D.C., 1978), pp. 12, 13.

TABLE II
PUPIL-TEACHER RATIO, PUBLIC ELEMENTARY AND SECONDARY SCHOOLS:^a
1960, 1970, 1976

Rank	State	1960	Rank	State	1970	Rank	State	1976
	U.S. Average	24.2		U.S. Average	20.4		U.S. Average	20.3
1	Arizona	14.5	1	Vermont	18.5	1	Wyoming	16.5
2	Tennessee	16.2	2	South Dakota	18.7	2	Vermont	17.0
3	North Dakota	18.3	3	Wyoming	19.3	3	North Dakota	17.2
4	Wyoming	18.5	4	Iowa	20.0	4	Kansas	17.4
5	South Dakota	18.6	5	Nebraska	20.1	5	Nebraska	17.6
6	Delaware	19.5		New York	20.1		New Hampshire	18.0
7	Nebraska	19.6	7	Montana	20.9	6	New Jersey	18.0
8	New Jersey	20.1	8	North Dakota	21.0		Massachusetts	18.1
	Idaho	20.4		Louisiana	21.1	8	Virginia	18.1
9	Maryland	20.4	9	Wisconsin	21.1	10	South Dakota	18.2
	Oregon	20.4		Kansas	21.2	11	Connecticut	18.3
12	Montana	20.5	11	Virginia	21.2		Iowa	18.3
13	New Hampshire	21.4	13	Connecticut	21.5	13	Montana	18.4
14	Kansas	21.5	14	Minnesota	21.8	14	Louisiana	18.5
15	Iowa	21.7	15	Oregon	22.0	15	Wisconsin	18.9
16	Vermont	21.8	16	New Jersey	22.1	16	Rhode Island	19.0
17	Connecticut	22.1		Maine	22.2	17	Pennsylvania	19.3
18	New York	22.2	17	Rhode Island	22.2	18	Colorado	19.4
19	Illinois	22.4		Maryland	22.5		Minnesota	19.4
20	Massachusetts	22.8	19	Pennsylvania	22.5	20	Oklahoma	19.5
21	Alaska	22.9	21	Illinois	22.7		Missouri	19.6
22	Michigan	23.2		Alaska	22.8	21	New York	19.6
23	Colorado	23.3	22	Idaho	22.8		Texas	19.6
	Kentucky	23.4		Delaware	23.0	24	West Virginia	19.7
24	Minnesota	23.4	24	Florida	23.0	25	Alaska	19.8
26	Nevada	23.6		Michigan	23.3	26	Delaware	20.0
27	New Mexico	23.8	26	South Carolina	23.3		Maryland	20.0
	Maine	23.9		Alabama	23.5	28	Alabama	20.1
28	Washington	23.9	28	Colorado	23.5		Oregon	20.1
30	Rhode Island	24.0		Oklahoma	23.6	30	Georgia	20.2
31	Wisconsin	24.2	30	Mississippi	23.6	31	Illinois	20.3
32	Virginia	24.4		Georgia	23.6		Arizona	20.8
33	Arkansas	24.5		Arkansas	23.7	32	Arkansas	20.8
34	Texas	24.7	33	New Hampshire	23.7		Mississippi	20.8
35	Ohio	24.8		Massachusetts	24.0		New Mexico	20.8
36	West Virginia	25.0	35	New Mexico	24.0	36	Florida	20.9
37	Louisiana	25.3	37	Texas	24.1	37	North Carolina	21.0
38	California	25.7	38	Arizona	24.2		Idaho	21.2
39	Pennsylvania	25.8		Missouri	24.2	38	Kentucky	21.2
	Florida	25.9	40	Indiana	24.3		South Carolina	21.2
40	Indiana	25.9		West Virginia	24.3	41	Maine	21.3
	Oklahoma	26.6		California	24.4	42	Ohio	21.4
42	Utah	26.6	42	North Carolina	24.4	43	Tennessee	21.7
44	Missouri	27.3	44	Hawaii	24.5	44	Hawaii	21.9
45	Alabama	27.5	45	Washington	24.6	45	Indiana	22.0
46	South Carolina	27.8	46	Kentucky	24.8		Michigan	23.1
47	North Carolina	28.1	47	Nevada	25.1	46	Wisconsin	23.1
48	Georgia	28.2	48	Ohio	25.2	48	California	23.3
49	Hawaii	28.9	49	Tennessee	26.3	49	Utah	23.7
50	Mississippi	29.8	50	Utah	27.0	50	Nevada	31.3

SOURCE: *Statistical Abstract, 1961*, p. 116.
Statistical Abstract, 1970, p. 124.
Statistical Abstract, 1977, pp. 132, 148.

^aExcludes supervisors, principals, librarians, etc.

This brief review of the financing of elementary and secondary public education would be seriously incomplete without some attention to the variety of sources tapped for financing that education. As Table III indicates, the property tax is an extremely important source of tax revenues for local governmental entities. But other sources of revenue are available. By the time one reaches

the final column, Property Tax Revenue as a Percentage of Total General Revenue, a clear picture emerges. School districts and county governments will be hardest hit by the reduction in rates of property taxation and limits future increases in such taxation. Respectively, they depend upon the property tax for one-third and one-fourth of their funds.

TABLE III
THE ROLE OF THE PROPERTY TAX, NEVADA 1975-76

Level of Government	(millions of dollars)	Percentage Distribution	Property Tax Revenue AS Percentage of		
			Total Tax Revenue	General Revenue from Own Sources	Total General Revenue
State and Local Governments	166.0	100.0	33.2	24.1	19.3
State	20.0	12.0	6.8	5.9	4.1
Local	146.0	83.0	70.7	41.8	27.2
Counties	56.2	33.9	56.3	29.9	24.7
Municipalities	20.3	12.2	55.3	31.7	18.8
School Districts	67.5	40.7	99.3	82.7	33.1
Special Districts	2.0	1.2	100.0	12.7	7.4

Source: U.S. Bureau of the Census, *Governmental Finances in 1975-76*, Series GF76, no. 5, pp. 38, 48. (U.S. Government Printing Office, Washington, D.C., 1977).

It does not necessarily follow that actual funding will decline. Certainly Nevada has the capacity to fund educational or local governmental programs at levels far higher than have existed in the past. But can one expect such support? Readers might ponder the progression of the argument in this brief study. Affluent neighborhoods have funded education very well, but the relationships between capacity and effort becomes tenuous indeed when one compares state performance. Nevada is an extreme example of a minimal relationship, in which private affluence exists side-by-side with well-below-average funding of public services, including education.

Although we shall not attempt an explanation of the causes of Nevada's behavior, clearly non-fiscal decisions

are being made. These decisions should trouble anyone concerned with the future of public education in Nevada and with the future of the state as well. The contemporary wisdom seems to be that Nevadans are less in need of an adequately funded educational system than are the residents of other states. In fact — despite spectacular growth, enviable affluence, and tourists anxious to be served by Nevadans as they enjoy Nevada's recreational opportunities — the comparative level of funding is eroding. If a modern, complex society requires higher and higher levels of skills, how long can these trends continue before Nevadans will be unable to compete with outsiders for any but the most menial jobs in the state?

FOOTNOTES

¹ *Legislative Fiscal Report*, Fifty-Ninth Nevada Legislature, Fiscal Years 1977-78 and 1978-79, p. 17 (Education, All Funds Functional Summary).

² August 1978 Bureau of Economic Analysis, *Regional Economics Information System*, U.S. Department of Commerce.

³ *1977 State Tax Revenue*, Bureau of Census, U.S. Department of Commerce, "News" CB78-4, January 9, 1978 and 1977 Population, August 1978, Bureau of Economic Analysis, *Regional Economics Information System*, U.S. Department of Commerce.

⁴ Tax capacity represents potential state and local revenue from its own sources. This includes only tax revenue, excluding non-tax revenues such as licenses and user charges as well as revenue from other governmental entities. The concern for only tax revenue alone cannot indicate how a political jurisdiction will use these resources.

This study uses the tax capacity index in D. Kent Halstead *Tax Wealth In Fifty States*, National Institute of Education, U.S. De-

partment of Health, Education, and Welfare (U.S. Government Printing Office, Washington, D.C.: 1978). Chapter Four discusses the methodology employed. The estimation of tax capacity is based on methodology developed by the Advisory Commission On Intergovernmental Relations and simplified by Robert Reischaur, *Rich Governments — Poor Governments*, (unpublished manuscript, The Brookings Institution, Washington, D.C., 1972.)

⁵ D. Kent Halstead, *Tax Wealth in Fifty States*, National Institute of Education, U.S. Department of Health, Education and Welfare, p. 4.

⁶ *Ibid.*, p. 5.

⁷ *Ibid.*, p. 13.

⁸ *Ibid.*, p. 106.

⁹ *Legislative Fiscal Report*, Fifty-Eighth Nevada Legislature Fiscal Years 1975-76 and 1976-77, p. 32.

¹⁰ *Expenditures per Student 1976*: Current-fund expenditures (restricted and unrestricted funds expended for current operations) 1975-76 of

public institutions of higher education per full-time student in those institutions. This is a measure of the operating costs of higher education given available current funds from all sources. Sources: *Financial Statistics of Institutions of Higher Education*, "Current-Fund Expenditures of Institutions of Higher Education by Control and by State: 1975-76," National Center for Education Statistics, U.S. Department of Health, Education, and Welfare; and *Chronicle of Higher Education*, Fact File, National Center for Education Statistics, U.S. Department of Health, Education, and Welfare.

¹¹ *Chronicle of Higher Education*, October 25, 1977. Vol. XV, No. 8, p. 11.

¹² Percentage of State Tax Revenue Appropriated for Operating Expenses: This is a general measure of state support of higher education, but does not include support for capital improvements nor appropri-

ations from other governmental units (federal, city, county). State tax revenue includes monies for special funds as well as general funds. Sources: M.M. Chambers, "Grapevine," November 1977, No. 233, p. 1483; and Bureau of the Census, U.S. Department of Commerce, "News," CB78-4, January 9, 1978.

¹³ Legislative Fiscal Report, Fifty-Ninth Nevada Legislature, Fiscal Years 1977-78 and 1978-79.

¹⁴ *Financial Status of the Public Schools 1978*, National Education Association, Table 28, "Current Expenditures Per Pupil in ADA Public Elementary and Secondary Schools by State, 1977-78," p. 34.

¹⁵ David R. Morgan, *Handbook of State Policy Indicators*, Third Edition, Norman, Oklahoma: Bureau of Government Research, University of Oklahoma, 1978, p. 51. These figures are based on opening fall enrollments, from data collected by the National Education Association.



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Changing Patterns of Enrollment at UNR, With a Discussion of Budgetary Implications*

by James T. Richardson

For the past four biennia several of the most important budgetary formulas used in the development of the budget request for the University of Nevada have involved as a crucial element the number of Full-Time Equivalent Students (FTE students).¹ This number is used in determining how many FTE faculty there should be in the largest instructional budget area, which is known as "Instruction and Departmental Research" (I&DR). The FTE faculty number is then used in determining how many classified employees, teaching fellows, and wage positions there will be for the I&DR area, which comprises the major portion of the total operating UNR budget.² Because of the crucial nature of this measure, care must be taken to ensure that the meaning of the FTE student concept is well-understood. The actual meaning of the concept of a FTE student can change either as a result of altering the definition that establishes methods of calculation, or as a result of changes in the enrollment patterns of students.

This report was prompted because the meaning of the FTE student concept has been changing rapidly at UNR, and in ways that work against the University being able to accomplish its mission of offering sound education for the citizens of the state. This change of meaning has greatly hampered UNR in meeting its responsibilities, and apparently there have been some negative effects at UNLV as well.

Since 1969, when FTE students became an integral part of the budget process, the definition has changed, but not in a way that has aided in securing needed funding. The original 1969 definition was based on the number of students enrolled during the fall semester and was a gross figure (it did not exclude withdrawals). In 1975, it was changed to include the average of the number of students enrolled in the fall and the smaller number enrolled in the spring semester. Moreover, withdrawals which occurred during the regular enrollment period were to be subtracted from the total. The new definition results in a significantly smaller number than does the original definition. This change of definition was intended to be used in conjunction with other changes that involved establishing student-faculty ratios by *level of instruction and type of program*. The State Budget Office in 1976 accepted and revised the definition of an FTE in its funding formula, but did *not* accept the complementary differentiated ratios concept.

Two types of changes in enrollment patterns at UNR have resulted in even greater damage from the definitional changes than otherwise would have been the case:

- a) There has been a marked change in recent years in the numbers of students taking courses at the three levels of instruction (lower division, upper division, and graduate). Table 1 shows that since Fall of 1971, there has been an overall shift downward of 10.8% in the total headcount of regular enrollment in lower division courses, while there have been corresponding shifts *upward* of 8.5% and 31% at the upper division and graduate levels, respectively. The dramatic changes may have stabilized for the lower and upper division levels, but the graduate enrollment pattern is one of nearly consistent growth, both in absolute numbers and in portion of total enrollment. Thus, while UNR is becoming much more of an upper division and graduate university, its funding support has been based on an approach that does not recognize the new needs this change has produced. Upper division and graduate courses require smaller classes and more individualized instruction than do lower division courses, and UNR is having severe trouble serving student needs as a result.
- b) The other shift concerns the rapidly changing relationship of "headcount" students to FTE students. As indicated in Table 2, in the Fall of 1973 the FTE student (annual net) count was about 90% of the headcount student figure. By Fall, 1978, this had dropped to 76.5%. From 1973 to 1977, the FTE student count (using "annual net") dropped by 254 (4%); but during the same time the regular headcount number grew about 872 (12.8%). This dramatic shift means that, for a given FTE student number (the figure on which most I&DR funding is based), we have significantly more actual students to educate. The students are at UNR demanding courses and programs in which to major and the University must try to meet those demands. The relatively larger number of students need advising and counseling, and, because more of them are upper division and graduate students, they require more and smaller courses in their areas of specialization. This marked increase in the headcount students calls for *more* faculty and support staff, but I&DR funding is tied to FTE student numbers, not headcount numbers.

In summary, when the FTE student concept came into use in Nevada, it was applied in a way that put severe pressure on UNR by actually requiring a large drop in the number of faculty. The changes in definition implemented in 1975 exacerbated that strain on UNR resources.

*Prepared with the assistance of Don Jessup, Institutional Planning and Budget, University of Nevada, Reno.

Finally, changes in the composition of UNR student body have further eroded the ability of this institution to deliver the quality of education it provided in the early 1970's.

For several years UNLV has had fairly rapid growth in the FTE student number, in contrast to UNR, so there was still some influx of new faculty and some budgetary flexibility in meeting the problems faced by that institution. However, recent data indicate that they are beginning to feel the same pinch as UNR concerning the meaning of an FTE student. From 1976 to 1977 (fall net figures), UNLV's FTE student number grew by only 2.9% (5275 to 5429), whereas their headcount regular student number grew by 7.5% (6348 to 6826). To quote one UNLV administrator, "... it is not FTE students that park their cars, walk on the grass, drink coffee in the Union, flush the toilets, and require record keeping, academic advising and personnel counseling — it is *headcount* students that do and need these things."

These comments on shifts in enrollment patterns should not be taken as opposition to the use of a student-faculty ratio approach to higher education funding. Such an approach offers much in terms of ease of communication with those in state government and with the citizenry of the state, and it is difficult to think of a better overall way to deal with such complex issues in Nevada. However, such an overall budgetary approach must be sensitive to major shifts in the meaning of crucial elements, and has to take such shifts into account if the approach is to maintain its usefulness.

The Institutional Studies and Budget Committee of the UNR Faculty Senate, and the UNR Faculty Senate as a whole, have supported a more sophisticated approach to the use of student-faculty ratios which incorporates the use of differentiated ratios by level of instruction. It also calls for special ratios for certain professional programs such as medicine, nursing, and engineering. The system administration and the Board of Regents have adopted such an approach, but have had only limited success in getting the state government to accept it. The Medical Science program was allowed a lower student faculty ratio in 1975 and a lower ratio was accepted for nursing in 1976.

What is needed to compensate for the shifts in enrollment patterns described above is:

- a budgeting formula tied to level of instruction, so that as enrollment shifts toward upper division and graduate study funding will reflect these greater needs, and
- a budgeting formula that adds a factor to compensate for the impact of headcount student growth separately from changes in FTE student numbers.

Optimally, these formula changes should be implemented in order to provide the level of support needed now and in the future. Realistically, their adoption now will at least halt further erosion of the capacity of the two universities to meet the needs of their changing student bodies.

Table I
UNR Headcount Regular Student Enrollment
by Level of Instruction, with
Cumulative Changes, 1971-78*

Year	Lower Division Numbers and Percentage of Total	Percentage Change in Proportion of Total from Previous Year	Upper Division Numbers and Percentage of Total	Percentage Change in Proportion of Total from Previous Year	Graduate Number and Percentage of Total	Percentage Change in Proportion of Total from Previous Year	Total Regular Headcount Students
Fall 1971**	3681 52.2%		2236 31.7%		1136 16.1%		7053
Fall 1972**	3455 51.7%	.5%	2113 31.7%	0.0	1110 16.6%	+ .5	6678
Fall 1973	3300 49.6%	2.1%	2157 32.4%	+ .7	1198 18.0%	+1.4	6655
Fall 1974	3328 47.9%	1.7%	2315 33.4%	+1.0	1298 18.9%	+ .9	6941
Fall 1975	3564 47.7%	.2%	2513 33.7%	+ .3	1389 18.6%	.3	7466
Fall 1976	3444 45.9%	1.8%	2605 34.7%	+1.0	1455 19.4%	+ .8	7504
Fall 1977	3375 44.6%	1.3%	2698 35.7%	+1.0	1490 19.7%	+ .3	7563
Fall 1978**	3285 45.6%	+1.0%	2427 33.7%	-2.0	1485 20.6%	+ .9	7197
Cumulative Changes 1971-78	396 (- 10.8%)		+191 (+8.5%)		+349 (+31.0%)		144 (+2.0%)

*Derived from Table IV-2 of University of Nevada System *Comprehensive Plan for Public Higher Education in Nevada: 1977-1981*, and from information on Fall, 1977 and 1978, furnished by Don Jessup, Director of Institutional Planning and Budget, UNR. Regular headcount students are "total headcount minus nondegree and auditors."

**Six week enrollments; all other figures are from first reports; does not include medical students.

Table 2
Comparison of Headcount and FTE Enrollments
Fall, 1973 through Fall, 1978, UNR
with Cumulative Changes
1973-1978*

Semester and Year	Regular Students ^b		Non-degree & Auditors	Total Headcount	Fall Gross FTE ^b	FTE % of Headcount	Annual Net FTE ^b	FTE % of Headcount
	Part-time ^c	Full-time						
Fall, 1973	1216	5343	414	6973	6571	94.2%	6271	89.9%
Fall, 1974	1354	5591	464	7309	6848	93.6%	6532	89.4%
Fall, 1975	1434	5936	700	8070	7135	88.4%	6564	81.3%
Fall, 1976	1600	5808	623	8031	6895	85.9%	6387	79.5%
Fall, 1977	1649	5818	644	8111	6787	83.7%	6294	77.6%
Fall, 1978	1858	5339	668	7865	6523	82.9%	6017(est)	76.5%
Cumulative Changes	+642	-4	+254	+892	48	11.3%	254	13.4%
1973-1978	(+52.8%)	(-.1%)	(+61.4%)	(+12.8%)	(+1%)		(+4.1%)	

*Data developed by Don Jessup, Director of Institutional Planning and Budget, UNR.

^bThese figures do not include the medical students. Regular students are those who have applied for and been granted admission. Fall gross FTE is all credits registered for fall, first report. Annual net FTE is the average of all credits for both semesters, minus withdrawals during first week, first report. Both gross and net figures use new definition of an FTE student, which means using 15 credits at the undergraduate level and eight credits at the graduate level (see Footnote 1 of paper).

^cPart-time is defined as anyone taking seven or less credits.

FOOTNOTES

¹The FTE student number has been arrived at for the past four biennia by (1) summing the total credits registered for by undergraduates and dividing that sum by sixteen, (2) summing the total credits registered for by graduates and dividing that sum by nine, and (3) adding the quotients resulting from the two divisions. The number sixteen was derived from a simple division of 128 (the average number of credits required for graduation at the time this approach was adopted) by eight (the number of semesters in a four-year undergraduate program). The number nine for graduate students was simply defined as the average expected load of a graduate student.

²Please note that the FTE student number is *not* directly related to the average salaries of professional faculty. Salaries are determined by

the Board of Regents in negotiation with the Executive and Legislative branches of state government. I state this point explicitly so that no one will wrongly interpret this report as a call for higher salaries. There actually has been an indirect *negative* effect of the problems discussed in this report on professional salaries, because when more faculty are so desperately needed, part of the salary pool may be diverted from salary increases and used to hire more faculty than budgeting formulas allocate. Such was the case, for instance, in 1977, when UNR faculty, through the Faculty Senate, actually supported receiving lower average salary increases than faculty in other UNS divisions in order not to lose any positions and to add a few badly needed ones.



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Financial Outcomes for Public Education at the 1979 State Legislature

by Peter Steinmann

Introduction

In the article "The Funding of Public Education in Nevada", measures of tax capacity and tax effort are cited which show that Nevada has an unusually high ability to fund public programs; however, Nevada's public education programs are funded at levels well below national averages.¹ The authors warn that the comparative level at which that state's public education is funded would continue to erode unless Nevada's representatives at the 1979 State Legislature supported substantial budget increases for the entire public education system. This article describes significant fiscal decisions made by the 1979 State Legislature and assesses the future of public education in Nevada during the next biennium.

Elementary and Secondary Education

During the 1979 session, the Nevada Legislature enacted substantial cuts in property tax rates. Property tax revenues traditionally have provided a major source of funds available to local school districts. Legislators also took a number of steps to replace lost revenues from property taxation with revenues from state rather than local sources. How did public elementary and secondary education fare during the legislature, on balance? Are there long-term implications resulting from these changes in the source of revenues?

Prior to the legislative session, two sources of revenues were allocated by law specifically to school districts. One cent of the sales tax levy was collected for schools. Seventy cents of property taxation was similarly mandated, and most county commissioners also exercised the option to collect an additional eighty cents levy on property for schools. Additional local revenues came from a variety of sources. Finally, the Nevada Distributive School Fund provided substantial revenues, the dispersal of which reflected statewide policies.²

Some uncertainty concerning future revenues is reflected in legislative decisions. For example, if the United States Congress accepts President Carter's recommendation to reduce revenue sharing, the Nevada Distributive School Fund would be reduced by an estimated \$6 million. Similarly, predictions of revenue losses from repeal of the sales tax on food have differed significantly. These specific concerns added to general uncertainty over inflation and energy woes in a state heavily dependent upon tourism.

Legislators endorsed, and voters subsequently approved, removal of the tax on food. The mandatory 70¢ levy on property for school support was eliminated. The optional 80¢ levy was reduced to 50¢ and was subjected to

a complicated formula tied to tax collections from other sources, and to spending limitations or "caps".³ If General Fund revenues collected during the first year permit, some of those funds (up to a maximum of \$21 per pupil) would be transferred to the Distributive School Fund.⁴ A.B. 849 requires that such transfers first must replace losses of revenue, if any, from existing revenue sources such as revenue sharing. Any remaining money would be distributed to school districts. The County Commissioners then would be required to cut property tax levies even further in order to remain within revenue limits.

It is important to recognize that basic funding decisions were made separately from, and in most cases before, the tax package was completed. Recognizing that neither the Executive nor the legislature was likely to welcome expansive proposals, the Department of Education sought a 12 percent increase for 1979-80 (comparable to the rate of inflation during the twelve months preceding legislative consideration of funding proposals).⁵ Newly elected Governor Robert List instead recommended a "hold-the-line" budgetary increase of approximately 8 percent over the biennium.⁶ (These percentages refer only to the authorized average basic support per pupil provided from the State Distributive School Fund. During 1978-79, that authorization was for \$1,159 per pupil.)

As inflation continued at high rates with predictions of even more in the future, the legislative battle became intense. As the tax package began to take shape, school administrators became acutely aware that local revenues, both mandated and optional, would be reduced, making the revenues from the Distributive School Fund more important in total budgets than they had been in previous years. In the end, state funding followed the Governor's recommendations but legislators added spending limits as well.

For 1979-80, the legislators authorized \$1,252 per pupil basic support, an 8 percent increase. For 1980-81, they authorized \$1,331 (+ 6.3 percent), and an additional maximum \$21 transfer from the General Fund to the Distributive School Fund if revenues permitted.⁷ The addition would bring state support up to an 8 percent increase. However, in that event county support from property taxes would have to be reduced to remain within spending limitations.

Those limitations fix maximum spending for school districts at levels keyed to inflation and enrollment trends. The inflation factor is 80 percent of the average for the previous five years. The enrollment adjustment is based on a comparison of current enrollment with the

average enrollment of the previous three years. Perhaps the most important observation about these formulas is that they accept the level of educational quality now existing as adequate for the future. They also assume that it will take no more or less resources per pupil to provide that quality of service in the future. Beyond that, the changing averages for inflation will hurt school districts during periods of accelerating inflation and improve funding when inflation slows down. The enrollment averages will ease the task of allocating funds from year to year, but will force school districts that undergo abrupt enrollment changes to absorb those effects within programs and the classroom.

The shift to funding from state revenues has less direct implications. Certainly it will allow the state to more readily redistribute funds among districts to equalize funding per pupil. Such efforts are consistent with recent court decisions on equality of educational opportunity.⁸ They may also make future state educational decisions more responsive to interest groups such as teacher organizations — a result that seems to have occurred at the national level. Centralized funding also makes educational policy susceptible to the purposes of activist governors. As such, state educational policy may become an important element of future campaigns. At the same time, local groups and administrators will have less control and will have to learn to work with state officials. In light of the relationship between neighborhoods and support for educational goals noted elsewhere, this loss of local influence is cause for concern.

One effect of the shift in funding deserves separate comment. Property values tend to be stable or to reflect growth over time and hence revenues tend to be predictable. A shift to revenues from gaming and sales taxations will link the fate of education in Nevada to the fortunes of the gaming industry. That linkage may be dangerous and certainly deserves further study.

Higher Education Funding

As noted in "The Funding of Public Education in Nevada," Nevada's support out of state tax revenues for operating expenses in public higher education ranked thirty-eighth in the nation for 1977-78.⁹ In his "State of the State" address during January, 1979, Governor Robert List specifically proposed a reduction of 42 authorized faculty positions as well as other reductions in funding. Glum forecasts preceded the budgetary hearings for the University System and sometimes bitter exchanges marked those hearings.

Despite the unfavorable political climate and a decline in full-time enrollments in the Fall 1978 semester, university administrators requested and strongly defended an increase in state support of 13.7 percent over allocations for 1978-79.¹⁰ Administrators maintained that the enrollment decline was a temporary reflection of the booming economy, that research and graduate education were

becoming increasingly expensive, and that they had little control over such soaring costs as the price of heating oil.

The budget finally approved for the higher education system is as notable for decisions to reallocate funding among components and activities as it is for the total level of funding approved. For 1979-80, an overall increase of 10.7 percent in spending was authorized. 30 of the 42 authorized faculty positions that Governor List had proposed to eliminate were retained. In fact, if one considers full-time equivalent rather than authorized positions, there was a net increase of 7.61 positions.¹¹ Secondly, positions lost during 1979-80 could be regained in the following year through a "trigger" mechanism based on enrollment. In short, if administration enrollment projections are accurate overall, staffing during the biennium would reflect "hold-the-line" decisions. Money available for salaries and programs might or might not be so described, depending upon the experience with inflation.

Allocation decisions produced clear winners and losers at the legislature. The School of Medical Sciences appropriation grew most, by 39 percent. System Administration funds grew by 26 percent. University Press funds by 24.1 percent (despite unusually acrimonious hearings), Western Nevada Community College support by 21.3 percent, Northern Nevada Community College support by 19.6 percent, and Cooperative Extension Service funds were increased 16.9 percent. The formula for calculating FTE student enrollment was modified slightly to the advantage of upper-division/graduate programs such as that at the University of Nevada-Reno.

At the same time, funds for support of intercollegiate athletics (an activity that has proved capable of obtaining substantial support from private boosters) were cut by 15.7 percent. Scholarships and graduate fellowships suffered a funding reduction of 7.7 percent. That cut will eliminate 6.6 percent of the graduate positions that provide teaching and research assistance. Support for student services declined by 5.4 percent.

Conclusion

It is clear from these legislative decisions that improving the comparative ranking of support for education was not a high priority either of the new Nevada governor or the 1979 legislature. However, in the wake of Proposition 6 things could have been much worse. As in California, legislators made decisions that will transfer financial responsibility from the local to the state level. They also enacted spending limitations with serious consequences resulting from the existing low level of educational funding. But funding was at levels near those previously approved and limitations set by one legislature can be modified or repealed by the next. Consequently, while the 1979 legislative session was not a good one for education in Nevada, it would be an exaggeration to depict it as dismal.

FOOTNOTES

¹Peter Steinmann and Richard Ganzel, "The Funding of Public Education in Nevada," in *Nevada Public Affairs Review*, Taxation, (Bureau of Governmental Research, University of Nevada, Reno, 1979).

²R. R. DiSibio, Superintendent, Nevada Department of Education, *Nevada Plan for Support of Public Education*, August 1978.

³Nevada, Senate Bill 204, March 26, 1979.

⁴Assembly Bill 849, May 25, 1979.

⁵Consumer Price Index (U.S. City Average - 1967 = 100), United States Department of Labor.

⁶Wendell Newman, Nevada State Education Association, June 1979.

⁷Douglas Seiver, Nevada Department of Education, July 1979.

⁸Recent court decisions at the state level have focused on reforming public educational finance through equalization of the revenues received from the property tax. In the landmark decision *Serrano v. Priest* (89 California Reporter, 345, 1971), the California Supreme Court held that levels of expenditures per pupil based upon widely differing tax bases of local school districts were not legal. (See: Murray S. Stedman, Jr., *State and Local Governments*, (Mass.: Winthrop, 1979), p. 315). Rather than force poorer local districts to

pay very high taxes, reformers argue that state governments should collect taxes that support schools and distribute them to ensure equal expenditures per pupil in each school district.

⁹Peter Steinmann and Richard Ganzel, "The Funding of Public Education in Nevada," *op. cit.*

¹⁰Dr. Douglas A. Mathewson, Chancellor's Office, University of Nevada Systems Administration, June, 1979.

¹¹1978-79 and 1979-80 Work Program," University of Nevada System, p. 6.

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The Impact of Proposition 13 on Public Education in California

by James E. Gregg

Passage of Proposition 13 in the June, 1978 California primary election has created new problems and challenges for public service at all levels of government in that state. While still trying to adjust to a revenue limitation on property taxes, California's public administrators and elected public officials now face the prospect of an expenditure limitation, if another initiative petition now being circulated qualifies for the state's ballot and is passed by angry voters.

Raging inflation sent real estate prices soaring in California and led to massive increases in property assessments and residential tax bills just prior to the June election. Voters responded with overwhelming approval of Proposition 13, the Jarvis-Gann property-tax limitation initiative. The measure set a tax ceiling of 1 percent of full cash value as of the 1975 assessment, and limits any assessment increase by local governments to two percent per year. It also requires that any new statewide taxes be approved by two-thirds vote of the legislature. Finally, it prohibits localities from increasing property taxes.

All units of local government in California have felt the impact of Proposition 13's passage; this article will assess the measure's impact on public elementary and secondary education in the state. We shall examine both the immediate fiscal impact of the measure for the current fiscal year and look at the longer range implications for financing and policy related to public schools.

The passage of Proposition 13 cost California public schools property tax revenues of \$2.9 billion in 1978-79, or roughly 37 percent of total state and local general funds revenues for schools.

Opponents of the measure had predicted dire consequences for local governments if the measure passed. Once the voters had approved the measure, its constitutionality was quickly tested in the courts. With its chief justice and three associate justices facing a bitter confirmation vote by the electorate in the November election, California's Supreme Court found Proposition 13 constitutional. The state's legislature faced a three-week time limit to enact necessary enabling legislation for apportionment of the limited property tax revenue by county governments.

At the same time, the legislature faced the critical problem of "bailing out" local governments now deprived of a major revenue source. During the preballot fight over Proposition 13, Governor Jerry Brown vowed not to provide local governments with replacement funds for those lost if the measure passed. As public opinion polls showed increasing support for passage of the tax limitation, Brown moderated his opposition; after the

election, an amazing 41 percent of the state's voters indicated their belief that Brown had actually supported the measure.

The State Department of Education, through its chief spokesman, Superintendent Wilson C. Riles, and the Legislature's Assembly Education Committee had warned voters to expect a 30 percent reduction in school budgets and the possible loss of \$500 million in federal funds if voters approved Proposition 13. Their predictions presumed that the governor and the legislature would provide no relief to local school districts. They also assumed that the national government would continue to require that local districts provide substantial funds to match federal project allocations. Neither eventuality occurred. For some California taxpayers viewing current school funding, the picture appears to be business-as-usual, with many districts spending as much this year as before passage of Proposition 13. Indeed, one additional consequence of the state's "bail out" strategy may be a further erosion of public confidence in government. Some feel that all the predictions of fiscal chaos, massive teacher layoffs and program cutbacks were just political lies and rhetoric.

The reasons the dire fiscal consequences predicted for local school districts did not occur are simple. Proposition 13's passage portended a cut of almost \$3 billion in funds for local schools. The legislature responded by passing Senate Bill 154 to make up \$2.2 billion of the local revenue loss from state surplus funds as a "one year solution."

Two results of the state's action to cope with Proposition 13 funding losses are now evident. First, school district budgets in the state were actually funded at a level 10 percent below the 1978-79 projections. Spending for the state's schools for the current year, prior to Proposition 13, was projected at \$7.8 billion from local and state funds. The actual amount budgeted for schools for this year is now about \$7 billion. Secondly, the state's "bail out" of the local districts has resulted in a spectacular alteration in the ratio of local and state resources allocated to education. Prior to Proposition 13, the state supplied 38 percent of school costs; local funds accounted for the remaining 62 percent. After Proposition 13, a startling reversal occurred, with state funds now amounting to 71 percent and local funds only 29 percent of public school expenditures.

The 10 percent budgetary cuts present problems that require immediate short-term decisions about educational programs and personnel utilization. However, the massive change in funding sources raised major questions

about overall policy control of public education in California.

Governor Brown alleviated some local school boards' problems with the 10 percent budget cut by freezing salary increases for teachers and other local government employees. Since employee salaries comprise about 80 percent of most school district budgets, local school administrators and school boards began to explore other sources of budgetary reductions. Total funding for many districts now approximate last year's budgets; what was lost was the inflation factor and employee salary increases.

According to State Department of Education officials now engaged in assessing the post-Proposition 13 budget strategies of local districts, instructional programs in the schools have not been affected significantly. State Superintendent Riles describes the budget cuts as, "painful but not disastrous." The district budget cuts range from 9 percent to 15 percent.

Riles noted that while other local governmental units can charge fees and increase other revenue sources, schools have no such alternatives to replace funds lost through Proposition 13 cuts. California school districts have been under revenue limits since the fiscal year 1973-74. Those existing limits plus the 10 percent reduction for this year "leads us now to cutting muscle and bone . . . we've long since gone past the fat," says Riles. The state superintendent stated that the prior revenue limits had not kept pace with inflation or with the pace of increased funding for other local governmental agencies.¹

As noted, local districts have absorbed this year's budgetary reductions without significant cuts in instructional programs. Instead, the cuts have been in maintenance, non-teaching staffs, transportation, capital outlay, summer school and adult education programs, and some extracurricular activities including athletics. The cuts have varied in kind and amount from one district to another, and districts with reserve funds were required to expend them.

Obviously these kinds of budgetary cutbacks are effective only in the short run. In the case of deferring building maintenance, the needs will have to be met if schools are not to deteriorate. Some districts are experiencing growth; many are already overcrowded. Under Proposition 13, there is almost no way a district can obtain capital outlay funding for either growth needs or for modification of existing facilities to meet the access rights of the handicapped, for example, unless additional funds for such purposes are supplied by the state. Provision of pupil transportation by school districts is not mandated in California, and only a small portion of busing costs is provided by state funds. Faced with the necessity for budget cuts, a few districts have turned over their bus systems to city or county transportation agencies. Substantial savings would be realized by some districts abandoning their school buses; user fees might also be charged. However, such action would create hardships on many families living some distance from schools. Another service being eyed for discontinuation is school cafeterias. School administrators regard both buses and cafeterias as ancillary services not essential to the basic instructional mission of public schools.

Few California taxpayers are yet aware that reduced or discontinued services, heavy increases in user fees or

increased taxes in areas other than the property tax may substantially reduce the savings from Proposition 13. Obviously, special fees or new sources of tax revenues such as increased local or state sales taxes amount to a "tax shift." Cities and counties have greater latitude in assessing special fees than do school districts. Fees for recreation programs, garbage collection, sewer use, water service and utility taxes have already been increased in many California communities as local agencies try to cope with lowered revenue from the property tax base. New and increased fees since Proposition 13's passage have brought outcries from citizens that bureaucrats are "punishing" taxpayers for passing the tax limitation. Public administrators reply that without adequate tax revenues, user fees must be imposed or services reduced or discontinued. The impact will become more evident to the taxpayer when the free school bus stops picking up Junior at the door, inexpensive lunches are no longer available at school, and additional fees for services appear on tax statements.

Another less tangible result of reduced budgets has been the effect on employee morale. Wilson Riles noted that it appears to be at an all-time low, stating "public employees are of the opinion that they've been asked to absorb the impact of Proposition 13, and the outlook for a double adjustment in salary in 1979-1980 is not very hopeful." Riles added that school employees in particular feel they have been asked to shoulder the burden without public sympathy for the fact they, too, are hit with inflation and other cost increases. Unless there is a substantial wage increase next year, Riles predicted many confrontations in the state over employer-employee relations problems.

But wage increases for the coming year may again be dictated by state policy, just as the salary freeze for all state and local employees was dictated by this year's "bail out" legislation. Governor Brown indicated in his gubernatorial campaign that the freeze was a one-time requirement. However, if "rescue" money for 1979-1980 is reduced, as some are predicting, wage increases may have to come out of funds cut from instructional program budget items which remained relatively untouched this year.

State Senator Bill Breene, D-Los Angeles, asked, "Isn't it time to tell people there are going to have to be cuts?" If Californians are not going to like the proposition's impact on government services and the quality of life that results from it, they are going to have to come to that realization on their own. Other legislators at the hearings echoed the same sentiment, indicating that the state should not be depended upon to make up the losses.

However, one key legislator, Senator Albert Rodda, suggested that even more "bail out" funds might be available next year. Legislative Analyst William Hamm and Deputy State Director of Finance Roy Bell were less optimistic, and predicted smaller state surpluses next year. If there is a downturn in the state's economy, tax revenues from sales and income taxes will not provide the kind of surplus that "solved" the Proposition 13 crises this current fiscal year. Nearly everyone is in agreement that using the surplus is only a stop-gap remedy that cannot be counted on for permanent readjustments in state and local revenue and spending policies.

Governor Brown is proposing a very austere state

budget for 1979-80 and there is no sign that public education will escape the contemplated budget cuts. Superintendent Riles plans to push for school finance and program legislation in early 1979. No specific legislative package had been proposed as of December 1, 1978, and the task of preparing a comprehensive finance bill in time for the 1979 session appears to be nearly impossible. Legislative committees and the governor seem to have no such legislation in the planning stages, and most observers expect 1979 to be another "bail out" year from the effects of Proposition 13.

All these factors raise fundamental questions about the basic assumptions that undergird California's public school system. There is no question that public education is a state responsibility. California's constitution makes clear the state's responsibility, but the state has had a long tradition of local control over schools. It is true that the state exercises a high degree of control over local districts, but the tradition of local autonomy is what the public believes to be the case. The political clout of this public perception is such that California's antiquated school district system of 1,043 districts has survived as one of the most inefficient in the United States. So long as the state provided less than half the funding for local schools, the myth of local control had some substance, at least in terms of revenue sources.

Yet another irony of Proposition 13's passage is that centralization of power in the state government at the cost of local control is all but inevitable. Most taxpayer groups that so vigorously supported Proposition 13 have long been proponents of limiting state authority. Now that they have achieved tax limitation, they may also have to suffer the loss of local power, for it is axiomatic in politics that power follows money. A. Alan Post, the highly respected former state legislative analyst, states that in no way can local communities expect to maintain local control if the present temporary solution of shifting costs to the state becomes a permanent solution to the loss of local taxing capacity.

Robert L. Joss, Senior Vice-President of Wells Fargo Bank, stated his concerns about the erosion of local control in an August 7, 1978, letter to Michael W. Kirst, President of the California State Board of Education:

The primary concern we have is that the discussions about education and its future in California are focusing too much on the wrong subjects, and not enough

on the right ones. In particular, the Board and the Legislature seem headed down a path of making decisions about structure . . . without any clear sense of direction or purpose as to what such structures are intended to accomplish. . . .

Our fear, quite simply, is that education in California is headed rapidly down the path of state centralism. . . . It portends all the negative features of any centrally planned and executed endeavor (such as inflexibility, insensitivity, sameness of approach) *without* at least realizing the positive features of efficient pursuit of our objectives — since we don't seem to have any clear objectives.

Professor James W. Guthrie, of the University of California at Berkeley, raises similar concerns in a paper, "Proposition 13 and the Control of Public Schools," prepared for the State Board of Education.² He notes the arguments for state control based on simplicity and efficiency, but also cites the fear that educational policy determined solely at the state level will "cede educational governance to the powerful public interest groups." Indeed, educational interest groups, particularly the state-wide teachers' organizations, have become the most powerful group source of political contributions to office-seekers in California. Guthrie's plea is for the development of a system that balances the state's interest with desires for local control.

Educational politics in California has become one of the most bitter conflicts in the state. The passage of Proposition 13 has unwittingly introduced factors that will further intensify that conflict over short-range and long-range policy choices. As the Governor, the Legislature, the State Board of Education, the State Superintendent of Public Instruction, and the various powerful educational groups struggle to accommodate the new factors produced by Proposition 13, local school districts will continue to be at the mercy of major decisions that can only be made in the state capitol.

Whatever those decisions, one can only hope that they result in at least two outcomes: enhance public education's ability to serve the young people of the state of California, and make the educational system of the state less complex and more understandable to the average citizen. Regardless of which level of government controls the schools or what the ultimate balance of shared power may be, strong public confidence in and support of public instruction is the first essential.

FOOTNOTES

¹Statement of Wilson Riles, Superintendent of Public Instruction, State of California, to Senate Committees on Revenue and Taxation and Local Government, Joint Hearing, Los Angeles, November 15, 1978.

²James W. Guthrie, "Proposition 13 and the Control of Public Schools." A paper presented to the California State Board of Education, August 18, 1978.

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The New Tax Package

by Glen Finnell

The November 1978 passage of Question Six by the Nevada electorate adds Nevadans to the ranks of citizens challenging existing trends in governmental activity. Question Six and similar measures in many other states are patterned after Proposition Thirteen, which passed earlier in California. Their immediate target and effect is the reduction of property taxes. However, many of their proponents also advocate various types of controls on governmental spending. At the same time, efforts such as the successful initiative to repeal the sales tax on food in Nevada or recent voter approval of an expensive bond measure to acquire a large new park site in Northern Nevada reveal more complex forces at play.

Popular interpretations attribute the surge of negative activity to prevalent attitudes variously shaped by the experience of Watergate, widespread publicity associated with instances of Congressional corruption, and investigations revealing flagrant abuses in welfare and public service agencies. For some, the tax revolt may be no more than a reaction to the growing state budgetary surplus. Repeal of inventory taxes (especially affecting businesses, at least in the first instance) may be voter endorsement of the "whack a tax" mentality. But what about repeal of the tax on food? Should it be seen as another simple tax-cutting endorsement or, as viewed by liberal proponents such as former State Senator Gojack, as inhumane policy toward the poor? Attitude assessment becomes every more difficult when voters appear to show selectivity by approving bond measures such as the one to acquire Rancho San Rafael for a regional park.

Question Six posed several general challenges to the 1979 Legislature. First, it would reduce property taxes sharply. Second, it would virtually shield property from the effects of inflation and growth, thereby steadily eroding property tax levies. Third, because much of the revenue from property taxation supports some local government functions, it would require the legislators to choose between more general tax reform and cutbacks in local government functions. Finally, as will be noted below, Question Six would impose sharp "inequities" in property taxation that may be unconstitutional. In short, the simple language of the ballot measure belied its potential consequences. Because Nevada law requires that such measures be passed twice before they are implemented, much of the activity of the 1979 session was devoted to efforts to forestall passage of Question Six once again in 1980.

Some of the underlying concerns of voters are not ones to which state legislators can easily respond. Moreover, there is widespread recognition that Nevada differs from

other states in some important respects. Its existing level of taxation is comparatively low, and its funding of most public programs has been austere. Whereas many other states have been spending up to or beyond the revenues they have collected, Nevada has been a model of fiscal conservatism. Rapidly rising revenues from gaming and growth in general have yielded ever-increasing surpluses in the state's general fund.

Table 1
State General Fund Surplus¹

Fiscal Year	Budgeted Surplus	Percent (1)	Actual Surplus Before Legislative Action	Percent (2)
1964-65	4,178,499	8.3%	8,425,084	17.2%
1966-67	4,002,784	6.8%	8,428,135	13.7%
1968-69	6,131,678	8.8%	15,380,288	21.0%
1970-71	6,068,120	6.9%	25,646,343	27.1%
1972-73	7,919,691	7.2%	41,973,026	36.1%
1974-75	13,453,603	9.3%	67,616,612	45.8%
1976-77	19,964,693	10.5%	58,001,693	30.4%
1978-79	22,553,983	9.5%	168,000,000*	69.6%

(1) Surplus as a percentage of governor's recommended general fund appropriation.

(2) The actual surplus available to the legislature for special appropriations as a percentage of legislative regular general fund appropriations.

* Estimated.

Nevertheless, Nevada's new legislature overwhelmingly interpreted passage of Question Six as a mandate to reduce even further the overall rates of taxation and expenditure. Consequently, debate between leaders of the Senate and Assembly Taxation Committees was confined primarily to such issues as how to target tax relief, how to avoid the equity problems of Question Six and still reduce property taxes, and how to minimize negative impacts upon local governmental functions. This limited range of dispute, within the prevailing consensus that rollbacks had been mandated, effectively stifled efforts to initiate or expand existing programs and sharply limited reform (as distinguished from reduction) of Nevada's tax structure. However, it was assumed that voters would repeal the tax on food, a repeal that *did* entail substantial reform as well as reduction.

Question Six Analyzed

Question Six, the "Initiative to Limit the General Tax on Real Property," continues to be poorly understood—at least in part due to the simplification of wording adopted for the November 1978 ballot. As stated on the ballot, it would limit the "general tax on real property to 1 percent of full cash value." In addition, assessed increases

in real cash value attributable to inflation (rather than to improvements) are limited to annual increments of 2 percent. Third, *other* state and local taxes could be increased only after approval by two-thirds of the relevant electorate. Only upon reading the prepared explanation does one learn that "full cash value," a term usually associated with market price from sales (or estimates based on similar property sales located nearby) is to mean *assessed* valuation on July 1, 1975 for property that has not changed hands since that time. The legislature was directed to create a formula covering property sold, subject to the 2 percent inflation limitation. New property presumably would initially reflect market value following construction.

For a hypothetical home valued (assessed) at \$50,000 in 1975, a 1 percent maximum tax would have yielded (or cost) \$500 in property taxes. Under existing procedures *and assuming the property had been newly reassessed that year*, the maximum tax bill would have been \$875. Now let us assume — not unrealistically during an era of double-digit inflation — that the inflated market value of the home increased by 20 percent per year until 1980, at which time it was sold for \$100,000 and reassessed at that value. Under existing procedures, the tax bill would rise to \$1,750. Under Question Six, the tax bill instead would be only \$550. However, the tax on a newly built \$100,000 home would be approximately \$1,000 (1 percent).

A second inequity arises from existing administrative practice. Unlike California, where property is reassessed annually as well as when sales occur, Nevada law specifies reassessment within five years. In some cases, over-worked assessors have failed even to maintain that pace. Consequently, properties having similar market values may have very different assessed values as a result of the timing of assessment. Setting an arbitrary 1975 date of valuation would fix such differences in concrete, thereby favoring those whose property had not been reassessed for some years prior to 1975. This illustration reveals the implications and inequities of the ballot initiative. The change mandated is, most significantly, a change in the *tax base* — to 1975 assessed values plus an inflationary factor intentionally set below expectations. The second key effect is tax limitation — the 1 percent maximum. The third clear effect is to treat similar kinds of property differently, as shown in the divergent tax bills on houses of equal market value.*

Legislative Action

Legislators thus faced a drastic challenge from the tax initiative. They also faced an embarrassingly large General Fund surplus, estimates of which grew to \$168 million as they deliberated and as revenues from taxes on gaming, entertainment, and sales climbed. In addition, of course, they faced an array of departmental and university officials eager to respond to the needs and desires of their particular constituencies and at least to keep pace with inflation.

*Most commentators regard these inequities as unconstitutional. Although it is inaccurate to assert that property cannot be treated differently (agricultural property is an important example of different treatment for so-called greenbelt preservation), a clear public purpose must be present. The inequities identified are accidental (timing of assessment) or arbitrary (construction before or after 1975). Since many proponents of Question Six are thoroughly knowledgeable on taxation effects, it is curious that the self-interest implications of Question Six did not engender more debate in 1978 from critics of the initiative.

One such example of such demands for expanded funding deserves special note. The Highway Department has depended on revenues from a gallonage tax on gasoline and diesel fuel. Revenues from this user tax had not kept pace with inflationary impacts on cost of road construction and maintenance.† The Department presented grim prophecies of deteriorating streets and highways unless the user tax rate were to be increased or supplemented from the General Fund. In the end, the legislature (after being advised that it could not refer the issue to the voters) passed the issue to the counties by giving them the option to raise taxes by 2¢ per gallon.*

The Senate and Assembly Taxation Committees took somewhat different approaches to tax reduction, though each hoped to provide relief roughly comparable to that which would have been provided in the current year by Question Six. At the same time, they grappled with means by which local bodies especially dependent upon property tax revenues could be assisted through the use of what otherwise would have been revenues for state programs.

The Assembly Committee favored a straightforward, across-the-board property tax reduction. Its leaders argued that the market would ensure an equitable allocation of these cuts, especially among landlords and tenants. The Senate Committee argued for mandated rebates to tenants, a step which may have required creation of an administrative agency to enforce the requirements. In the end, they compromised on a formula by which landlords would reduce rents in proportion to the cut in taxes but leave tenants with the obligation of initiating complaints on noncompliance through ordinary legal channels.**

Deliberations on the amount of the tax cut to be approved were keyed largely to estimates of a "safe" budget surplus for the next biennium and to the volume of expenditures approved. A last-ditch effort by the Senate to add 25¢ to the property tax rate failed. The results of the legislative efforts are found in S.B. 204.

For property tax *payers*, legislated relief for 1979-1980 takes the form of a *rate* reduction, from a maximum \$5.00 per \$100 of assessed valuation to \$3.64 or less. \$3.64 is the maximum allowable to local governments, which may choose to assess property at lower rates. Secondly, the tax on household goods (personal property), previously assessed by adding 5 percent to the assessed value of the home, was eliminated.

The rate of property taxation for 1980-1981 is keyed to state revenues during 1979-1980, to inflation, and to such factors as school enrollment and population growth. For that year, maximum rates of property taxation could be as high as \$3.94 or as low as \$3.46 per \$100 assessed

† For documentation, see the contribution by Andrew Grose to this issue — Ed.

* If Question Six passes in 1980, such increases would have to be approved by two-thirds of the voters in the county — a rare consensus for tax increases. Legislators who sought to follow the advice of academic analysts such as those who maintained that the tax should be a percentage of the price of fuel to stay even with inflation, were defeated by the consensus against tax increases of any kind.

** Such a redirection of legal responsibility may be difficult to enforce and could result in situations where new tenants or others will be unwilling to question rental rates. Moreover, ambiguity abounds. If property has been reassessed, raising taxes since the past period, can these increases be passed on? The cuts are legally effective July 1, 1979, yet new rates had not been set for some areas by that date. (Can landlords wait or do they risk penalty?)

valuation. Additional tax relief follows passage of A.B. 616, which provided for elimination of the tax on food if voters approved. On June 5th, Nevada voters overwhelmingly endorsed elimination of the tax by nearly a 4 to 1 ratio. Legislative Counsel Bureau estimates of the dollar amounts of this tax relief package are provided in the appended tables, which also specify the particular elements of the property tax that have been eliminated.

The two taxation committees also imposed "caps" (limits expressed in formulas rather than dollar amounts) on spending by local governments and school districts. Local governments are to use the 1978-79 budget year as the base. They are to limit budgeted spending increases to the percentage increase of population plus 80 percent of the average rate of inflation during the sixth month period preceding the month of November prior to the new fiscal year. The Governor is to certify local population estimates, with the Tax Commission serving as a court-of-last-resort for local appeals. The formula for school districts is based on enrollment changes plus 80 percent of the inflation that has occurred over the preceding five years, coupled with enrollment and expenditure averages. This formula is more sensitive to inflationary effects on schools and more open to change (e.g., in enrollment patterns) than that for local governments.

Having thus limited local government expenditures, legislators assumed state responsibility for funding many programs that otherwise would have lost funding through the enacted tax reductions. Local governments would no longer have to pay 11¢ out of property tax revenues to support Nevada's Medicaid program. Similarly, a total of \$1.25 of property tax collections now designated for state support of education will be eliminated and replaced by the state out of General Fund

revenues. Thus the net *share* of property taxes available to finance local obligations remains constant. However, substantial revenues previously available to local governments and school districts were lost by repeal of the tax on food. To partially offset this loss, the state surrendered its 25 percent share of the real property transfer tax and fees collected by counties on gaming. Over the biennium, these new revenue sources are estimated to yield \$11 million, a figure smaller than revenue losses associated with elimination of local revenues from food taxation and personal property taxation.²

Conclusion

It is too soon to assess whether the measures enacted by the 1979 Legislature will result in defeat of Question Six when it appears on the ballot next year. Legislators certainly cut taxes substantially, though by no means by as much as Question Six would do over the long term. Moreover, they have enacted spending limitations that will pinch local governments so long as inflation persists. Third, they can claim to have responded responsibly to some of the major arguments against Question Six by assuming some funding of local government programs and making revenues available for others by funding state programs from non-property tax funds. But continued inflation and rising revenues from gaming could once again yield a substantial state surplus. Moreover, property reassessments in some cases will result in higher property tax bills despite the cut in rates enacted. Perhaps, like many reform movements, the impetus to cut taxes will have weakened by 1980. If not, the legislative effort of 1979 certainly has clarified arguments on both sides of Question Six.

TABLE II
TOTAL ESTIMATED TAX RELIEF¹

Total Tax Relief	1979-80	1980-81
Sales Tax		
Food Tax—State 2¢	\$ 15,066,480	\$ 17,627,720
—Schools 1¢	6,861,938	8,028,486
Property Tax		
State 11¢ - share	6,207,000	7,137,000
State 25¢ - share	14,307,000	16,453,000
Schools 70¢ - share	40,282,891	47,411,112
Schools 30¢ - share	17,264,096	20,319,336
Total:	\$ 99,989,405	\$116,976,654
Local Relief		
Household Personal Property	3,500,000	4,000,000
Food Tax—Cities/Counties ½¢	3,363,099	3,934,776
Total:	6,863,099	7,934,776
Total Basic Tax Relief	\$106,852,504	\$124,911,430
Additional Relief Through the Trigger		12,240,000
Total Potential Biennial Relief:	\$244,003,934	

TABLE III
FAMILY TAX RELIEF⁴

This Prediction Assumes: Family of four, income of \$19,000, \$50,000 residence.

Property Tax	Current Method	Proposed Method	Percent of Relief
House: Value	\$50,000	\$50,000	
	35%	35%	
Rate	\$17,500	\$17,500	
	5.00	3.64	27.2%
Tax	\$ 875	\$ 637	
Household Good at 5% of home:	\$44	\$ 0	5.0%
Food Tax:	\$83	\$ 0	
Total Tax Burden:	\$ 1,002	\$ 637	36.4%
Tax Relief:		\$ 365	

FOOTNOTES

¹The figures in Table I were compiled by Dr. James Roberts from the Executive Budget.

²All estimates contained in the text were obtained from memorandum to members of the Nevada Legislature from the Legislative Counsel Bureau, Fiscal Analysis Division, dated May 26, 1979. Readers inter-

ested in a slightly revised version of the information contained in the memorandum are referred to the June 11, 1979 issue of *Tax Topics*, published by the Nevada Taxpayers' Association.

³*Ibid.*

⁴*Ibid.*

The Effect of S.B. 204 On Local Governments

by Marvin Leavitt

Realizing the inequities of Question Six, which reduces property taxes by amending the Nevada Constitution, the 60th session of the Nevada State Legislature felt that an alternative was necessary. To provide this alternative the legislature enacted a comprehensive tax reduction package which includes significant cuts in property taxes, removal of the sales tax on food, and limitations on spending by local governments. The property tax reduction provided substantial immediate tax relief but did not guarantee that rapidly increasing property values would not effectively eliminate this relief in the future.

To guard against this occurring and to assure the citizens of Nevada that the benefits of the tax reduction package would be ongoing, a decision was made to place limitations on state and local spending. This would have the effect of controlling the amount of taxes that could be levied. If the total revenue expectations exceeded the amount that could be legally expended, taxes would have to be reduced, since the funds that a government could have on hand were also restricted. By this method, even though the assessed valuation might rise at an ever-increasing rate, the rate of taxation should diminish.

The limitations on spending are computed using each local government's 1978-79 budget as a base with increases in spending allowed for population growth and inflation as measured by 80 percent of the Consumer Price Index averaged over the last five years.

However, the spending limitations do not apply to all expenditures of a local government. Local governments, in compliance with legal requirements and generally accepted accounting principles, often establish separate funds to account for different types of revenues and expenditures. Certain of these funds are not included within the expenditure limitations unless they receive property taxes or license revenue. The following types of funds are exempt: (1) Special Assessment Districts; (2) Capital Projects; (3) Enterprise; (4) Internal Service; (5) Debt Service; (6) Trust and Agency. Of those funds, only debt service funds for repayment of bonds that have been approved by a vote of the people traditionally received tax revenues.

It appears that since the funds that are exempt from limitations are financed by user fees, we may well see a trend in Nevada for local governments to finance a larger percentage of their activities from user fees and a lesser amount from the more general taxes such as property taxes and licensing fees. For example, recreation programs appear to be an area that will be financed to a greater extent by user fees in the future.

Since each entity has its own individual problems and circumstances, a formula computing expenditure limitations might be fair to one entity and unfair to another. For instance, the new formula is computed using the 1978-79 final budget as a base. In some entities this budget represents their final expenditure computations after salary increases for employees have been agreed upon and included in their projected expenditures. For other entities salary negotiations were still under way when the budget was filed on April 10; as a consequence, any salary increase subsequently granted was not included in the final budget. Salaries make up more than 70 percent of the total expenditures of most local governments. Since the amount determined as the base is to be used for each year in the future, this differential could cause substantial reductions in future spending authority for governments that had not provided for salary increases in the final budget filed on April 10, 1978.

As another example, Nevada Statutes provide that all property must be reassessed at least once every five years. In compliance with this law, most assessors in the state have established schedules that provide for reassessment of all property within the five years. Let us suppose that in a certain taxing district there has been a reassessment that is effective for the fiscal year 1978-79. When the local government filed its budget for the year it would have included the additional revenue generated by the increase in assessed valuation that had taken place in the preceding five years. Expenditures would also have been increased for the 1978-79 fiscal year, which is used as the base year for determining spending authority into the future. At the same time, the reassessment of property within the boundaries of a local government adjacent to the one just discussed is scheduled to be effective for the fiscal year 1979-80. Therefore, none of the projected increase would be included within its budget for 1978-79. Because of this, the property tax values that are used for the purposes of providing revenues, and which in turn allow for expenditure increases, are five years old and substantially under present values. As can be readily seen, it is possible that two jurisdictions can have substantially different spending limitations imposed upon them, depending on when their reassessment came in relation to the year picked as the base year for computing spending limitations. It should be noted that the legislature was aware of these conditions and felt that the use of the 1978-79 fiscal year would be the most equitable for the largest number of governments in the state.

Another problem is caused for jurisdictions that have

population decreases. White Pine County and the City of Ely, for example, have experienced a sizable drop in population due to a substantial reduction in mining activity in that area. Because of this decreasing population, their spending authority might well decrease between any two fiscal years. At first glance this seems to be logical, since it would be expected that with a decreasing population base, expenditure demands for services also would be decreasing. In the long term this would probably be true, but may well not be true in the short run. For example, one major service provided by local governments is fire protection. In a community with a declining population, we would expect to find a number of empty buildings. These buildings could well have increased vandalism and fire problems, and as a result, call for an increase in fire protection. It can be easily seen that the same result may be true for police protection as well as street maintenance. The ability of the government to provide these basic services already limited by a diminishing revenue base could be further contracted by expenditure limitations.

The growth in a community which would require increased expenditure is measured in the formula by the growth in population. Because of the physical makeup of the various urban areas in the state, an inequitable situation may exist between two adjacent cities, which we will refer to as "A" and "B". City "A" grows rapidly as a result of development in its business community, including major hotels requiring large numbers of employees. Because of this increased development and the influx of tourists into the area, the demand for city services as well as the property tax base have increased accordingly. At the same time, the lack of available residential land within the boundaries of the city forces the employees hired by the new businesses to find residential accommodations outside of the boundaries of "A". City "B", because of its location, has very little land suited for major business development, but does have considerable property ideally suited for residential development; the new workers employed by the expanding business community of City "A" quickly move to the new housing developments within City "B". City "A" has sufficient revenues to provide adequate services within its area because of the property tax base. City "B" also has sufficient revenues because of the apartments and residences being added to their tax rolls, as well as substantial revenues from sales, cigarette and liquor taxes, which are distributed based on population.

Since population is the factor used in the spending formula to determine growth in the community and City "A" has had very little population growth, it may not be able to provide the required services within its boundaries. City "B", however, having had rapid population growth, will receive adequate or possibly even excessive spending authority.

Having reviewed the possible problems associated with the implementation of the act, applying as it does to such a diverse group of local governments, we come to the important question of whether the act will "really work" and have the effect desired by the legislature.

As budgets are prepared, each government must address the problem of whether it is going to attempt to carry out the spirit of the law or take advantage of the exceptions in the act to circumvent the intent of the legislature. In order to try to preserve the status quo,

governments will undoubtedly try to avoid the limitations of the act and adjust and transfer funds. I believe that such action was anticipated by the legislature, which allowed the separation of non-tax revenues from those derived from property taxes and licenses. This action on the part of local governments should have the greatest effect in the 1979-80 Fiscal Year with a diminished effect in succeeding years. Most governments will probably be able to implement the provisions of the act without seriously impairing their service levels.

If property values continue to grow in future years at a rate exceeding the general rate of inflation, a reduction in the property tax rates throughout the state may be expected. However, it is important to remember that the spending limitation relates to all revenues collected and not just one revenue source. Therefore, if property taxes grew at a rate that exceeded the rate of inflation but revenues from business licenses grew at a rate that was lower than the general inflation rate, the two would offset each other and there would be no decrease in the property tax rate.

Since the growth in expenditures allowed because of inflation is only 80% of the growth in the Consumer Price Index, governments are going to be forced to deliver services to their citizens in a more efficient manner. If they cannot or will not do this, service levels will have to be cut or user fees will have to be increased.

Officials of local government are concerned that they may not have the resources to prepare for growth. In other words, spending authority will follow population growth. If, for instance, a major hotel is being constructed in a community but is going to be in the construction phase for several years before a work force is hired, the local government may well be restricted in preparing to deliver services until after the hotel is completed and the workers have actually moved into the community. It should be noted, however, that it would be possible to issue bonds after having received the approval of the voters at an election. The debt service payments for bond retirement and interest are not covered by the expenditure limitations.

It is very likely that this expenditure-limitation legislation may well limit new programs being undertaken by local governments. If a certain program was not included in the budget for the base year 1978-79 it could be undertaken only at the expense of an existing program budget, since the formula only allows for growth based on inflation and increased population. Some of the smaller communities in the state which do not currently have full municipal services have expressed concern that the expenditure limitations will stop them from ever getting these services in the future.

Limitation of expenditures is something that is new to governments in Nevada. Since the state has grown at such a rapid rate in the past two decades, local entities have had to increase their service capabilities by large amounts to adequately provide governmental services to the expanding community. Now for the first time they are being told by the legislature as well as by the people to stop, sit back, re-examine their priorities, and control their expenditure growth. It is too early to tell what the final result might be. Since the program is new, no one can really say whether it will accomplish the desired result or whether the inequities built into the formula will destroy the entire program.

Local governments, while recognizing the need to control expenditures, also feel pressures from those desiring expanded and improved services, and feel themselves to be in a dilemma. Amended budgets for the 1979-80 fiscal year were filed on June 25 by almost all of the local governments, requiring most to reduce their proposed expenditures from the levels originally anticipated in April when the final budgets were filed. Capital improvements financed from current revenues, anticipated new employees, and certain supply and service items have been eliminated. At this time it appears that very few existing employees will have to be laid off.

Most officials appear to have adopted a "wait and see"

attitude toward the new program, desiring at least one more year of experience before the final judgment is rendered. In the balance, this program appears to be vastly superior to the constitutional amendment approach of Question Six, which would have the effect of completely disrupting the property tax system of the state and causing severe problems in relation to issuance of debt. Nevada still has one of the most attractive taxation structures of any of the states, and it is incumbent upon local and state governments to work so that this situation continues into the future while still providing governments with sufficient resources to fund important programs.



Marvin Leavitt is Director of Finance for the City of Las Vegas.

A Local Administrator Looks At The Budget Process

by John MacIntyre

Local government policymakers and administrators annually construct their budgets in a climate of uncertainty. Usually that uncertainty has to do with such diverse factors as the trends in the national economy; the health of the local, immediate economy; growth rates; service demands; collective bargaining agreements; capital facility needs, to name just a few. This year, local officials in Nevada were faced with the prospect of building budgets with an additional constraint: the certainty of tax reform but the uncertainty of the exact nature of it.

State law and regulations of the Nevada Tax Commission provide the framework within which local government budgets are put together by Nevada local agencies. In non-legislative years, the local government budget process typically begins sometime during the month of December prior to the beginning of the fiscal year, which starts on July 1 of the following calendar year. In legislative years, provisions exist for amendment of local government budgets to accommodate changes which might be brought about by legislative action.

Local government policymakers and administrators have been keenly aware of the changing attitudes towards government taxation and spending. If any questions had existed about those attitudes, they were quickly dispelled with the first vote on Question 6 which occurred November 7, 1978. While voters statewide were approving Question 6 by a three-to-one margin, Washoe County voters supported the measure by a five-to-one margin. Thus, the stage was set for legislative consideration of alternative tax reforms.

Given the clear mandate of the Question 6 vote and the certainty of legislative tax reform, Washoe County staff, together with the Board of County Commissioners, set about developing a budget process that would allow us to be prepared for the more immediate affects of legislative tax reform as well as allowing us to become better accustomed to cutback budgeting and management in the event Question 6 passes in November 1980.

Thus, at the outset, the Board of County Commissioners established a basic guideline for budget preparation which called for each county department head to submit a budget no greater than 7 percent higher than that of the 1978/79 fiscal year. In addition, each department head was requested to develop an alternative budget which would be 20 percent below their proposed 1979-80 budget. The "20 percent alternate" budgets were intended to be kept in reserve. They would have been utilized only in the event an extremely severe tax reform package was adopted and implemented. Since the alternate budgets represented substantial reductions, personnel cuts would

have been involved. Because those cuts involved specific positions, we did not feel it appropriate to subject those budgets to a public review process in the absence of a mandated need to do so. Certainly no useful purpose would have been served by causing anxiety among employees because of a possible budget cut which would eliminate positions, but which might or might not be necessary.

During the time that department managers were putting together their proposals for FY 1979-80, the County Department of Budget and Analysis (DBA) conducted in-depth studies of departmental budgets over the past five years. Interesting discoveries which emerged from this analysis included the fact that historically, departments underspent their personnel budgets by an average of 4 percent. It was also found that revenue projections were consistently lower than actual revenues received. Since our strategy was not only to try to reduce the growth rate of the county budget (while maintaining service levels), but also to seek alternate revenue sources, the implications of the DBA study became clear: by using tighter, more accurate projections of personnel costs and revenue projections, we could budget more accurately (and as if additional revenue sources had been created.)

The regulations and laws of the state require the filing of the final budget by April 10 for the fiscal year succeeding. Budget review hearings before the Board of County Commissioners were scheduled for the latter part of February and the early part of March, 1979. In the meantime, various legislative tax reform proposals were in the hopper and there was no clear indication of the shape tax reform would take. Our basic criteria remained the initial 7 percent guideline. Those budgets exceeding the guideline received significantly more detailed analysis and review by both the DBA staff and the Board of County Commissioners.

By the time Washoe County filed its final budget on April 10, 1979, the legislature had not reached any final determination regarding tax reform. The Board of County Commissioners, while not keeping overall county budget growth within the overall 7 percent guideline, had nevertheless succeeded in holding total budget growth to around 9 percent for a total of \$72,433,528. This was substantially below the historical budget growth rate of 15 percent over the previous 5 years. They had also managed to reduce the county property tax rate by 10¢. The above accomplishments were achieved without reductions in departmental service levels. In fact, there were modest service level increases provided within certain functional areas, most notably public safety.

As the legislature moved toward adjournment in the latter part of May, the legislative tax reform package began to take shape. It became clear that additional budget revisions would become necessary, although the exact extent could not be determined. By early May, it was known that budget changes, ranging from \$1.5 million to \$4 million, might be required. The uncertainty stemmed from two factors: the *exact* substance of the major bill (S.B. 204) had not been finalized, and the proposed legislation could be interpreted in significantly different ways.

In early June, staff of the Nevada Department of Taxation conducted workshops for local government officials. These workshops were designed to help local officials in interpreting and implementing S.B. 204. Local officials then had approximately three weeks in which to make revisions to their final budgets and file amended final budgets. For Washoe County, this task became relatively easy in that, because of the initial guidelines set by the Board of County Commissioners, no radical surgery was required in order for the Washoe County budget to

comply. The final amended budget was \$69,188,707; the \$3.2 million cut was made without affecting program or personnel funding levels.

In looking back on the budget process just completed, it is evident that the establishment of an initial budget guideline provided a practical objective which assisted both the Board of County Commissioners and staff in reviewing budget requests. The guideline not only assisted in dealing with the usual uncertainties surrounding budget preparation but also the added uncertainty that tax reform represented. Realistic guidelines do not necessarily mean reduced services or facilities and may, in fact, help in service and facility planning. With cooperation between elected policy makers and their staff, implementing tax reform through the budget process can result in a spending program that respects both service and facility needs. The experience thus gained should leave us better equipped to respond to further cutbacks if such become necessary as a result of future legislative action or voted mandate at the polls.

John MacIntyre is County Manager for Washoe County.

Local Government Budgets For Fiscal Year 1979-80

(Figures in italics indicate final budgets as revised to meet new legislative guidelines)

Local Government Taxing Unit	Assessed Valuation	Local Government Unit Rate	Other Special District Rates	Total Combined School Rate	County Rate	State Rate	Total Combined Unit Rate
CARSON CITY							
Urban Taxing District	\$ 108,971,714	2.5252	.0094	1.8800		.25	4.6646
	<i>107,458,049</i>	<i>2.4152</i>	<i>.0094</i>	<i>.7682</i>			<i>3.1928</i>
Ormsby Taxing District	92,385,544	1.3813	.0050	1.8800		.25	3.5163
	<i>90,991,464</i>	<i>1.2713</i>	<i>.0050</i>	<i>.7682</i>			<i>2.0445</i>
CHURCHILL							
Churchill County	67,737,059	1.6650	.0050	1.8800		.25	3.8000
	<i>66,441,429</i>	<i>1.5550</i>	<i>.0050</i>	<i>.8476</i>			<i>2.4076</i>
Fallon	21,361,200	1.2000	.0050	1.8800	1.6650	.25	5.0000
	<i>20,773,490</i>	<i>1.2000</i>	<i>.0050</i>	<i>.8476</i>	<i>1.5550</i>		<i>3.6076</i>
CLARK							
Clark County	\$2,926,541,714	1.1305	-.0-	2.2023		.25	3.5828
	<i>2,889,911,431</i>	<i>1.0705</i>	<i>-.0-</i>	<i>1.1063</i>			<i>2.1768</i>
Boulder City	43,353,327	1.2672	.1500	2.2023	1.1305	.25	5.0000
	<i>42,365,632</i>	<i>1.2672</i>	<i>.1500</i>	<i>1.1063</i>	<i>1.0705</i>		<i>3.5940</i>
Henderson	81,882,323	1.3327	.0830	2.2023	1.1305	.25	4.9985
	<i>80,623,643</i>	<i>1.3327</i>	<i>.0830</i>	<i>1.1063</i>	<i>1.0705</i>		<i>3.5925</i>
Las Vegas	\$ 852,626,283	1.4137	.0035	2.2023	1.1305	.25	5.0000
	<i>839,760,798</i>	<i>1.4152</i>	<i>.0035</i>	<i>1.1063</i>	<i>1.0705</i>		<i>3.5955</i>
North Las Vegas	143,622,320	1.4122	.0035	2.2023	1.1305	.25	4.9985
	<i>141,235,575</i>	<i>1.4122</i>	<i>.0035</i>	<i>1.1063</i>	<i>1.0705</i>		<i>3.5925</i>
East Las Vegas	21,243,762	1.3387	.0794	2.2023	1.1305	.25	5.0000
	<i>20,857,732</i>	<i>1.2383</i>	<i>.0794</i>	<i>1.1063</i>	<i>1.0705</i>		<i>3.4945</i>
Paradise Town	874,718,540	1.3378	.0794	2.2023	1.1305	.25	5.0000
	<i>864,932,237</i>	<i>1.1709</i>	<i>.0794</i>	<i>1.1063</i>	<i>1.0705</i>		<i>3.4271</i>
Sunrise Manor Town	133,116,492	1.3378	.0794	2.2023	1.1305	.25	5.0000
	<i>131,472,417</i>	<i>1.2383</i>	<i>.0794</i>	<i>1.1063</i>	<i>1.0705</i>		<i>3.4945</i>
Winchester Town	324,486,885	1.3378	.0794	2.2023	1.1305	.25	5.0000
	<i>322,176,655</i>	<i>1.1706</i>	<i>.0794</i>	<i>1.1063</i>	<i>1.0705</i>		<i>3.4268</i>
DOUGLAS							
Douglas County	230,076,624	.6400	-.0-	2.1200		.25	3.0100
	<i>226,679,892</i>	<i>.5300</i>	<i>-.0-</i>	<i>1.0496</i>			<i>1.5796</i>
Gardnerville Town	13,236,786	.9200	.2785	2.1200		.25	4.2085
	<i>12,292,649</i>	<i>.7424</i>	<i>.2822</i>	<i>1.0496</i>	<i>.5300</i>		<i>2.6042</i>
Minden Town	8,592,877	1.0000	.2785	2.1200	.6400	.25	4.2885
	<i>8,452,721</i>	<i>.6793</i>	<i>.2822</i>	<i>1.0496</i>	<i>.5300</i>		<i>2.5411</i>
Kingsbury Gen. Imp. Dist.	18,044,411	.7200	.6750	2.1200	.6400	.25	4.4050
	<i>17,690,689</i>	<i>.7200</i>	<i>.6750</i>	<i>1.0496</i>	<i>.5300</i>		<i>2.9746</i>
Round Hill Gen. Imp. Dist.	11,457,577	1.4286	.5614	2.1200	.6400	.25	5.0000
	<i>11,235,347</i>	<i>1.4990</i>	<i>.5614</i>	<i>1.0496</i>	<i>.5300</i>		<i>3.6400</i>
ELKO							
Elko County	\$ 168,808,009	.9500	-.0-	1.7600		.25	2.9600
	<i>164,827,483</i>	<i>.8000</i>	<i>-.0-</i>	<i>.7272</i>			<i>1.5272</i>
Elko	58,204,530	.8270	.3074	1.7600	.9500	.25	4.0944
	<i>55,488,801</i>	<i>.8709</i>	<i>.3070</i>	<i>.7272</i>	<i>.8000</i>		<i>2.7051</i>
Wells	5,105,731	1.7000	-.0-	1.7600	.9500	.25	4.6600
	<i>4,916,180</i>	<i>1.7000</i>	<i>-.0-</i>	<i>.7272</i>	<i>.8000</i>		<i>3.2272</i>
ESMERALDA							
Esmeralda County	\$ 17,081,045	2.1500	-.0-	1.5000		.25	3.9000
	<i>17,093,415</i>	<i>2.0400</i>	<i>-.0-</i>	<i>.4110</i>			<i>2.4510</i>
EUREKA							
Eureka County	\$ 37,403,435	1.5600	.0300	1.5800		.25	3.4200
	<i>37,376,775</i>	<i>1.4500</i>	<i>.0300</i>	<i>.4800</i>			<i>1.9600</i>
HUMBOLDT							
Humboldt County	\$ 80,897,536	.9500	-.0-	1.7600		.25	2.9600
	<i>80,592,261</i>	<i>1.1005</i>	<i>-.0-</i>	<i>.7195</i>			<i>1.8200</i>
Winnemucca	20,727,410	2.0400	-.0-	1.7600	.9500	.25	5.0000
	<i>20,514,847</i>	<i>1.7500</i>	<i>-.0-</i>	<i>.7195</i>	<i>1.1005</i>		<i>3.5700</i>

Local Government Budgets for Fiscal Year 1979-80

Local Government Taxing Unit	Assessed Valuation	Local Government Unit Rate	Other Special District Rates	Total Combined School Rate	County Rate	State Rate	Total Combined Unit Rate
LANDER							
Lander County	\$ 40,230,766	2.0200		1.6500		.25	3.9200
	40,154,871	1.9100		.6500			2.5600
Battle Mountain Town	4,233,744	1.0800	-0-	1.6500	2.0200	.25	5.0000
	4,177,219	1.0800	-0-	.6500	1.9100		3.6400
LINCOLN							
Lincoln County	\$ 30,881,719	1.4500	-0-	1.8000		.25	3.5000
	30,656,128	1.3400	-0-	.7700			2.1100
LYON							
Lyon County	\$ 98,643,361	1.6890	-0-	1.7870		.25	3.7260
	97,698,301	1.4670	-0-	.8580			2.3250
Yerington	7,669,777	1.2740	-0-	1.7870	1.6890	.25	5.0000
	7,434,377	1.3150	-0-	.8580	1.4670		3.6400
Fernley Town	18,668,779	.0710	.4230	1.7870	1.6890	.25	4.2200
	18,527,799	.0500	.3740	.8580	1.4670		2.7490
MINERAL							
Mineral County	\$ 29,671,185	2.9500	-0-	1.8000		.25	5.0000
	29,386,407	2.9120	-0-	.7280			3.6400
Hawthorne Town	13,784,158	-0-	-0-	1.8000	2.9500	.25	5.0000
	13,518,343	-0-	-0-	.7280	2.9120		3.6400
NYE							
Nye County	\$ 104,975,265	1.7400	-0-	1.6700		.25	3.6600
	104,572,700	1.6300	-0-	.6600			2.2900
Pahrump Town	34,393,291	.3300	.0200	1.6700	1.7400	.25	4.0100
	34,294,072	.3300	.0200	.6600	1.6300		2.6400
Tonopah Town	6,629,128	1.3000	-0-	1.6700	1.7400	.25	4.9600
	6,464,384	1.3000	-0-	.6600	1.6300		3.5900
PERSHING							
Pershing County	\$ 40,554,339	1.5300	-0-	1.5000		.25	3.2800
	40,414,374	1.4400	-0-	.4855			1.9255
STOREY							
Storey County	\$ 13,652,029	2.6200	-0-	1.9300		.25	3.2800
	13,557,481	2.6200	-0-	.8911			3.5111
WASHOE							
Washoe County	\$1,611,167,772	1.7008	.0050	1.8005		.25	3.7563
	1,592,159,262	1.5908	.0050	.6470			2.2428
Reno	857,757,878	.9107	.0050	1.8005	1.7008	.25	4.6670
	847,884,078	.8562	.0050	.6470	1.5908		3.0990
Sparks	267,375,498	1.1310	.0050	1.8005	1.7008	.25	4.8873
	263,739,423	1.0894	.0050	.6470	1.5908		3.3322
Incline Village Gen. Imp. Dist.	138,130,223	.2000	.5710	1.8005	1.7008	.25	4.5223
	136,088,813	.2000	.5710	.6470	1.5908		3.0088
WHITE PINE							
White Pine County	\$ 46,913,414	1.8500	-0-	1.5000		.25	3.6000
	46,303,019	1.7400	-0-	.4541			2.1941
Ely	17,668,632	1.4000	-0-	1.5000	1.8500	.25	5.0000
	17,278,512	1.4000	-0-	.4541	1.7400		3.5941

Source: Local government budgets, compiled by the Nevada Taxpayer's Association. Reprinted by permission from *Tax Topics*, July 12, 1979.